

TOWN OF SHIRLEY, MASSACHUSETTS

Financial Statements

June 30, 2017

(With Accountants' Report Thereon)

Town of Shirley, Massachusetts

Table of Contents

	Page
Independent Auditors' Report	1,2
Management's Discussion and Analysis (Required Supplementary Information)	3-9
Basic Financial Statements	
Government-wide Financial Statements	
• Statement of Net Position	10
• Statement of Activities	11
Fund Financial Statements	
• Balance Sheet - Governmental Funds	12
• Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	13
• Reconciliation of the Governmental Funds Balance Sheet - Total Fund Balances to the Statement of Net Position	14
• Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
• Statement of Net Position - Proprietary Funds	16
• Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds	17
• Statement of Cash Flows - Proprietary Funds	18
• Statement of Net Position – Fiduciary Funds	19
• Statement of Changes in Net Position – Fiduciary Funds	20
Notes to the Financial Statements	21-51
Required Supplementary Information	
• Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	53
• Schedule of the Town of Shirley, Massachusetts Proportionate Share of the Net Pension Liability – Middlesex County Retirement System	54
• Schedule of the Town of Shirley, Massachusetts Contributions - Middlesex County Retirement System	55
• Schedule of Funding Progress and Employer’s Contributions - Other Post-Employment Benefits	56
• Valuation Details - Other Post-Employment Benefits	57

Town of Shirley, Massachusetts
Table of Contents

	Page
• Schedule of Changes in the Net OPEB Liability and Related Ratios (GASB74)	58
• Schedule of Contributions (GASB 74)	59
• Schedule of Investment Returns (GASB 74)	60
• Notes to the Required Supplementary Information	61-63
Report on Compliance and on Internal Control Over Financial Reporting and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i>	64,65
Schedule of Findings	66

INDEPENDENT AUDITORS' REPORT ON BASIC FINANCIAL STATEMENTS –
TOWN OF SHIRLEY

Board of Selectmen
Town of Shirley
7 Keady Way
Shirley, MA 01464

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Shirley, Massachusetts as of and for the year ended June 30, 2017, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Shirley, Massachusetts' management. Our responsibility is to express an opinion on these financial statements based on our audit.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence, about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Shirley, Massachusetts as of June 30, 2017 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary statement, the retirement system schedules and the other post employment benefit schedules listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reported dated June 29, 2018, on our consideration of the Town of Shirley, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Shirley, Massachusetts' internal control over financial reporting and compliance.

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
Georgetown, Massachusetts
June 29, 2018

Town of Shirley, Massachusetts
Management's Discussion and Analysis
Required Supplementary Information
June 30, 2017

As management of the Town of Shirley, Massachusetts, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Town of Shirley, Massachusetts for the fiscal year ended June 30, 2017.

Financial Highlights

- The assets of the Town of Shirley, Massachusetts exceeded its liabilities at the close of the most recent fiscal year by \$31,364,640 (*net position*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,866,092, or 13.75% of the general fund expenditures.
- The Town of Shirley, Massachusetts' total long term debt decreased by \$1,343,704 or 16.9% during the current year. The change is attributed the governmental activities \$377,259, or 13.3%) and in the business-type activities (\$966,465 or 18.9%). The decrease in long term debt is entirely due to principal payments made during the year.

Overview of the Financial Statements

The discussion and analyses are intended to serve as an introduction of the Town of Shirley, Massachusetts' basic financial statements. The Town of Shirley, Massachusetts' basic financial statements consists of the following: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Town of Shirley, Massachusetts' finances, in a manner similar to private-sector business.

The *statement of net position* presents information on all of the Town of Shirley, Massachusetts' assets/deferred outflows and liabilities/deferred inflows, with the differences between the two reported as *Net Position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town of Shirley, Massachusetts is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise of the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements have separate columns for governmental activities and business-type activities. The Town's activities are classified as follows:

- **Governmental Activities** – Activities reported here include education, public safety, public works, library and general administration. Property taxes, motor vehicle excise taxes, federal, state and other local revenues finance these activities.
- **Business-Type Activities** - Activities reported here are for sewer, trash collection and ambulance operations. User fees charged to the customers receiving services finance these activities.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Shirley, Massachusetts, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of Shirley, Massachusetts can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Proprietary funds. The Town of Shirley, Massachusetts maintains three proprietary (enterprise) fund types. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town of Shirley, Massachusetts uses enterprise funds to account for its sewer, trash collection and ambulance operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The sewer fund is considered to be a major fund of the Town of Shirley, Massachusetts.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The Town maintains fiduciary funds to account for activities related to charitable trust funds and the other post-employment benefits trust fund.

Notes to the Financial Statements

The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the Town of Shirley, Massachusetts' progress in funding its obligation to provide pension and OPEB benefits to its employees. The *required supplementary information* also includes budget versus actual information.

Reconciliation of Government-wide Financial Statements to Fund Financial Statements

The governmental activities of the government-wide financial statements and the governmental funds of the fund financial statements do not use the same accounting basis and measurement focus. Capital assets and long-term liabilities are not included on the balance sheet of the governmental funds, but are included on the statement of net position. Capital assets are recorded as expenditures when they are purchased in the governmental funds and depreciated over the useful life in the government-wide financial statements.

We have included schedules that provide a crosswalk from the government-wide financial statements to the governmental funds of the fund financial statements:

- Reconciliation of the governmental funds balance sheet total fund balances to the statement of net position.
- Reconciliation of the statement of revenues and expenditures and changes in fund balance of governmental funds to the statement of activities.

The reconciliation of government-wide financial statements to enterprise funds of the fund financial statements is not necessary. The business-type activities of the government-wide financial statements and the enterprise funds in the fund financial statements use the same accounting basis and measurement focus.

Financial Analysis of the Government-Wide Financial Statements

Net Position

Net position may serve over time as a useful indicator of a government's financial position. The following table reflects the condensed net position for the past two fiscal years.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current and Other Assets	\$ 6,782,743	\$ 6,174,868	\$ 8,231,524	\$ 9,088,957	\$ 15,014,267	\$ 15,263,825
Capital Assets	23,798,056	24,225,555	12,042,236	12,318,101	35,840,292	36,543,656
Total Assets	<u>30,580,799</u>	<u>30,400,423</u>	<u>20,273,760</u>	<u>21,407,058</u>	<u>50,854,559</u>	<u>51,807,481</u>
Deferred Outflows of Resources	<u>946,666</u>	<u>460,600</u>	<u>19,320</u>	<u>9,880</u>	<u>965,986</u>	<u>470,480</u>
Current Liabilities	2,267,728	1,556,170	1,027,529	971,142	3,295,257	2,527,312
Long Term Liabilities	12,952,409	13,315,027	3,407,985	4,409,111	16,360,394	17,724,138
Total Liabilities	<u>15,220,137</u>	<u>14,871,197</u>	<u>4,435,514</u>	<u>5,380,253</u>	<u>19,655,651</u>	<u>20,251,450</u>
Deferred Inflows of Resources	<u>784,248</u>	<u>43,351</u>	<u>16,006</u>	<u>730</u>	<u>800,254</u>	<u>44,081</u>
Net Position:						
Net Investment in Capital Assets	20,786,062	20,991,506	7,900,509	7,209,929	28,686,571	28,201,435
Restricted	2,184,077	1,736,068	-	-	2,184,077	1,736,068
Unrestricted	(7,447,059)	(6,781,099)	7,941,051	8,826,026	493,992	2,044,927
Total Net Position	<u>\$ 15,523,080</u>	<u>\$ 15,946,475</u>	<u>\$ 15,841,560</u>	<u>\$ 16,035,955</u>	<u>\$ 31,364,640</u>	<u>\$ 31,982,430</u>

The net position of the Town decreased by \$617,790 or 1.9 %. The net position of the governmental activities decreased by \$423,395 or 2.7 % and the net position of the business-type activities decreased by \$194,395 or 1.2%.

Changes in Net Position

The following condensed financial information was derived from the government-wide Statement of Activities. It reflects how the Town's net position has changed during the past two fiscal years.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenues						
Program Revenues:						
Charges for Services	\$ 713,848	\$ 911,764	\$ 901,883	\$ 1,021,089	\$ 1,615,731	\$ 1,932,853
Operating Grants and Contributions	1,211,180	655,252	420,052	559,907	1,631,232	1,215,159
Capital Grants and Contributions	-	-	18,770	-	18,770	-

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
General Revenues:						
Property Taxes	10,394,907	9,958,224	-	-	10,394,907	9,958,224
Motor Vehicle and Other Excises	930,101	861,872	-	-	930,101	861,872
Intergovernmental Not Restricted to a Specific Program	1,690,850	1,578,016	-	-	1,690,850	1,578,016
Other	169,849	196,733	-	7,000	169,849	203,733
Total Revenues	<u>15,110,735</u>	<u>14,161,861</u>	<u>1,340,705</u>	<u>1,587,996</u>	<u>16,451,440</u>	<u>15,749,857</u>
Expenses						
General Government	2,112,537	1,641,971	-	-	2,112,537	1,641,971
Public Safety	1,712,163	1,798,660	-	-	1,712,163	1,798,660
Education	8,333,426	7,921,912	-	-	8,333,426	7,921,912
Highways and Public Works	775,567	821,290	-	-	775,567	821,290
Human Services	178,728	207,251	-	-	178,728	207,251
Culture and Recreation	528,421	553,718	-	-	528,421	553,718
Fringe Benefits	1,835,417	1,708,741	-	-	1,835,417	1,708,741
Interest on Debt Service	108,003	118,375	-	-	108,003	118,375
Sewer	-	-	1,084,065	1,262,988	1,084,065	1,262,988
Other	-	-	400,903	340,139	400,903	340,139
Total Expenses	<u>15,584,262</u>	<u>14,771,918</u>	<u>1,484,968</u>	<u>1,603,127</u>	<u>17,069,230</u>	<u>16,375,045</u>
Increase (Decrease) in Net Position Before Transfers	<u>(473,527)</u>	<u>(610,057)</u>	<u>(144,263)</u>	<u>(15,131)</u>	<u>(617,790)</u>	<u>(625,188)</u>
Transfer of Assets	-	(173,000)	-	173,000	-	-
Transfers	50,132	50,131	(50,132)	(50,131)	-	-
Increase (Decrease) in Net Position	<u>\$ (423,395)</u>	<u>\$ (732,926)</u>	<u>\$ (194,395)</u>	<u>\$ 107,738</u>	<u>\$ (617,790)</u>	<u>\$ (625,188)</u>

Governmental Activities

In fiscal year 2017, property taxes accounted for approximately 68.8% of the revenues. In fiscal year 2016 they accounted for 70.3%.

Business-type Activities

Sewer rates are structured to cover all costs related to the activity. The betterment charges were established to fund all betterment related costs. Ambulance rates are structured to cover all related costs.

Financial Analysis of the Town's Funds

Governmental Funds

The focus of the Town of Shirley, Massachusetts' governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town of Shirley, Massachusetts' financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the Town of Shirley, Massachusetts itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Town of Shirley, Massachusetts' Selectmen.

General Fund – The year-end fund balances of the general fund were \$155,515 less than the prior year's fund balances.

The following tables reflect the trend in all components of fund balance and “free cash” for the previous ten fiscal years.

Fiscal Year	Reserved for Encumbrances	Reserved for Debt Service	Reserved for Deficits	Reserved for Subsequent Year's Expenditure	Unreserved	Total Fund Balance
2008	\$ 84,094	\$ 3,574	\$ (93,147)	\$ 39,850	\$ 172,377	\$ 206,748
2009	170,585	349,717	(20,045)	-	237,666	737,923
2010	150,390	324,518	-	30,000	537,559	1,042,467

In accordance with GASB 54 the stabilization fund is now reported in the general fund as a component of unassigned fund balance. Prior to fiscal year 2011, the stabilization fund was reported in the special revenue fund.

GASB 54 was implemented in fiscal year 2011. As a result the account titles of the components of fund balance changed as follows:

Fiscal Year	Restricted	Committed	Assigned	Unassigned	Total Fund Balance
2011	\$ 277,250	\$ 103,496	\$ 225,473	\$ 1,019,236	\$ 1,625,455
2012	244,696	109,296	248,556	1,385,324	1,987,872
2013	212,141	177,210	455,712	1,071,443	1,916,506
2014	179,586	554,414	150,309	1,953,213	2,837,522
2015	147,031	698,517	57,847	2,187,207	3,090,602
2016	114,477	553,801	466,530	1,767,078	2,901,886
2017	81,922	519,208	279,149	1,866,092	2,746,371

Based upon the balance sheet as of the close of each fiscal year, the Commonwealth of Massachusetts’ Department of Revenue (DOR) determines the amount of general fund “fund balance” available for appropriation. In general, this amount (commonly known as “free cash”) is generated when actual revenues on a cash basis exceed budgeted amounts and expenditures and encumbrances (unpaid commitments) are less than appropriations, or both.

Fiscal Year	Free Cash
2008	\$ (108,123)
2009	(53,941)
2010	226,051
2011	515,865
2012	571,396
2013	403,814
2014	1,103,734
2015	808,283
2016	789,631
2017	680,354

Proprietary Funds

Sewer and Other Enterprise Funds. The Town of Shirley, Massachusetts’ proprietary funds provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Sewer enterprise fund at the end of the year was \$7,785,142 and the total decrease in net position was \$149,678. Unrestricted net position of the other enterprise funds at the end of the year was \$155,909 and the decrease in net position was \$44,717.

General Fund Budgetary Highlights

The differences between the original budget and the final amended budget were due primarily to special Town meetings and reserve fund transfers. As budgetary information and needs became clearer, the Town approved more appropriations.

Capital Asset and Debt Administration

Capital assets. The Town of Shirley, Massachusetts' investments in capital assets for its governmental and business type activities as of June 30, 2017, amounts to \$35,840,292 (net of accumulated depreciation and debt). This investment in capital assets includes land, buildings, improvements, infrastructure, equipment and vehicles.

Major capital asset events during the current fiscal year included the following:

Backhoe/Loader	\$131,919
Performance Contract Town Hall and Police Station	\$193,633
Scott Air Packs	\$117,280

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Land	\$ 5,574,662	\$ 5,574,662	\$ 29,989	\$ 29,989	\$ 5,604,651	\$ 5,604,651
Work in Progress	43,600	-	-	-	43,600	-
Buildings	14,877,619	15,336,728	-	-	14,877,619	15,336,728
Improvements Other Than Buildings	216,826	270,736	-	-	216,826	270,736
Infrastructure	2,218,526	2,308,896	11,776,121	12,117,111	13,994,647	14,426,007
Equipment	440,355	245,421	190,319	107,194	630,674	352,615
Vehicles	426,468	489,112	45,807	63,807	472,275	552,919
Total	<u>\$ 23,798,056</u>	<u>\$ 24,225,555</u>	<u>\$ 12,042,236</u>	<u>\$ 12,318,101</u>	<u>\$ 35,840,292</u>	<u>\$ 36,543,656</u>

Debt

The Town had \$6,591,253 in bonds, outstanding on June 30, 2017. This represents a \$1,343,704 or 16.9% decrease from the previous year.

The Town's bond rating as of June 30, 2017 (per Standard & Poor's) was AA-.

Outstanding Debt at June 30, 2017 vs. June 30, 2016

<u>Governmental Activities</u>	<u>2017</u>	<u>2016</u>
General Obligation Bonds Payable	\$ 2,449,526	\$ 2,826,785
 <u>Business-Type Activities</u>		
Sewer:		
General Obligation Bonds Payable	4,141,727	5,108,172
Total Debt	<u>\$ 6,591,253</u>	<u>\$ 7,934,957</u>

Fiscal Year 2018 Budget

An initiative state statute, commonly known as “Proposition 2 ½”, limits the amount of property taxes that Towns can assess in any one year. In general, the Town’s property tax levy may increase by 2 ½ percent over the prior year’s tax levy, plus any additional amount derived by new developments or other changes made to existing property. If a community wishes to levy taxes above the limitations imposed by “Proposition 2 ½”, it is necessary to obtain the approval of a majority of the voters at an election.

Once again, limited resources and increased fixed costs (i.e. health insurance premiums) put pressure to hold other costs down. However, the Town managed to fund the operating budget without any significant reductions in the workforce.

Request for Information

This financial report is designed to provide a general overview of the Town of Shirley, Massachusetts’ finances for all those with an interest in the government’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Town of Shirley
Town Accountant’s Office
7 Keady Way
Shirley, MA 01464

Town of Shirley, Massachusetts
Statement of Net Position
June 30, 2017

	Governmental Activities	Business - Type Activities	Government- Wide Total
Assets			
Current:			
Cash/Investments	\$ 4,115,228	\$ 3,285,704	\$ 7,400,932
Petty Cash	200	-	200
Accounts Receivable:			
Property Taxes	378,873	-	378,873
Tax Liens	846,575	2,856	849,431
Excises	114,535	-	114,535
Special Assessments	-	61,094	61,094
Special Assessments Liens	-	103,959	103,959
User Charges	-	189,774	189,774
Utility Liens	-	9,839	9,839
Intergovernmental	1,210,862	-	1,210,862
Septic Loans	107,258	-	107,258
Other	9,212	-	9,212
Noncurrent:			
Accounts Receivable:			
Special Assessments Not Yet Due	-	4,578,298	4,578,298
Capital Assets:			
Assets Not Being Depreciated	5,618,262	29,989	5,648,251
Assets Being Depreciated, Net	18,179,794	12,012,247	30,192,041
Total Assets	<u>30,580,799</u>	<u>20,273,760</u>	<u>50,854,559</u>
Deferred Outflows of Resources			
Pensions	946,666	19,320	965,986
Total Deferred Outflows of Resources	<u>946,666</u>	<u>19,320</u>	<u>965,986</u>
Liabilities			
Current:			
Warrants Payable	144,643	31,358	176,001
Other Liabilities	33,209	-	33,209
Accrued Interest Payable	34,525	3,970	38,495
Compensated Absences	58,262	464	58,726
Landfill Liabilities	8,380	-	8,380
State Aid Anticipation Notes Payable	391,000	-	391,000
Bond Anticipation Notes Payable	1,246,994	-	1,246,994
Bonds Payable	350,715	991,737	1,342,452
Noncurrent:			
Compensated Absences	24,970	199	25,169
Bonds Payable	2,098,811	3,149,990	5,248,801
Landfill Liabilities	103,965	-	103,965
Net Pension Liability	8,734,039	178,246	8,912,285
Other Post Employment Benefit Obligations	1,990,624	79,550	2,070,174
Total Liabilities	<u>15,220,137</u>	<u>4,435,514</u>	<u>19,655,651</u>
Deferred Inflows of Resources			
Pensions	784,248	16,006	800,254
Total Deferred Inflows of Resources	<u>784,248</u>	<u>16,006</u>	<u>800,254</u>
Net Position			
Net Investment in Capital Assets	20,786,062	7,900,509	28,686,571
Restricted for:			
Capital Projects	118,393	-	118,393
Special Revenue	1,798,483	-	1,798,483
Perpetual Funds:			
Expendable	104,301	-	104,301
Nonexpendable	162,900	-	162,900
Unrestricted	(7,447,059)	7,941,051	493,992
Total Net Position	<u>\$ 15,523,080</u>	<u>\$ 15,841,560</u>	<u>\$ 31,364,640</u>

Town of Shirley, Massachusetts
Statement of Activities
Fiscal Year Ended June 30, 2017

Functions/Programs	Net (Expenses) Revenues and Changes						
	Program Revenues				in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<i>Governmental Activities:</i>							
General Government	\$ 2,112,537	\$ 234,312	\$ 774,142	\$ -	\$ (1,104,083)	\$ -	\$ (1,104,083)
Public Safety	1,712,163	191,661	81,307	-	(1,439,195)	-	(1,439,195)
Education	8,333,426	-	1,591	-	(8,331,835)	-	(8,331,835)
Highways and Public Works	775,567	7,878	256,076	-	(511,613)	-	(511,613)
Human Services	178,728	17,612	81,017	-	(80,099)	-	(80,099)
Culture and Recreation	528,421	262,385	17,047	-	(248,989)	-	(248,989)
Fringe Benefits	1,835,417	-	-	-	(1,835,417)	-	(1,835,417)
Interest on Debt Service	108,003	-	-	-	(108,003)	-	(108,003)
Total Governmental Activities	15,584,262	713,848	1,211,180	-	(13,659,234)	-	(13,659,234)
<i>Business-Type Activities:</i>							
Sewer	1,084,065	541,074	414,972	18,770	-	(109,249)	(109,249)
Other	400,903	360,809	5,080	-	-	(35,014)	(35,014)
Total Business-Type Activities	1,484,968	901,883	420,052	18,770	-	(144,263)	(144,263)
Total Primary Government	\$ 17,069,230	\$ 1,615,731	\$ 1,631,232	\$ 18,770	(13,659,234)	(144,263)	(13,803,497)
<i>General Revenues:</i>							
Property Taxes					10,394,907	-	10,394,907
Motor Vehicle and Other Excise Taxes					930,101	-	930,101
Penalties and Interest on Taxes					67,647	-	67,647
Other Taxes, Assessments and in Lieu Payments					17,640	-	17,640
Intergovernmental					1,690,850	-	1,690,850
Interest and Investment Income					57,268	-	57,268
Other Revenue					26,094	-	26,094
Contributions to Permanent Funds					1,200	-	1,200
Transfers, Net					50,132	(50,132)	-
Total General Revenues and Transfers					13,235,839	(50,132)	13,185,707
Change in Net Position					(423,395)	(194,395)	(617,790)
Net Position:							
Beginning of the Year					15,946,475	16,035,955	31,982,430
End of the Year					\$ 15,523,080	\$ 15,841,560	\$ 31,364,640

Town of Shirley, Massachusetts
Governmental Funds
Balance Sheet
June 30, 2017

	<u>General</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Cash/Investments	\$ 2,779,589	\$ 1,335,639	\$ 4,115,228
Petty Cash	-	200	200
Accounts Receivable:			
Property Taxes	378,873	-	378,873
Tax Liens	846,575	-	846,575
Excises	114,535	-	114,535
Septic Loans	-	107,258	107,258
Other	9,212	-	9,212
Intergovernmental	-	1,210,862	1,210,862
Total Assets	<u>\$ 4,128,784</u>	<u>\$ 2,653,959</u>	<u>\$ 6,782,743</u>
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities:			
Warrants Payable	\$ 117,685	\$ 26,958	\$ 144,643
State Aid Anticipation Notes Payable	-	391,000	391,000
Bonds Anticipation Notes Payable	-	1,246,994	1,246,994
Unclaimed Checks	33,209	-	33,209
Total Liabilities	<u>150,894</u>	<u>1,664,952</u>	<u>1,815,846</u>
Deferred Inflows of Resources:			
Unavailable Revenue	<u>1,231,519</u>	<u>1,317,870</u>	<u>2,549,389</u>
Total Deferred Inflows of Resources	<u>1,231,519</u>	<u>1,317,870</u>	<u>2,549,389</u>
Fund Equity:			
Fund Balances:			
Nonspendable	-	162,900	162,900
Restricted	81,922	568,239	650,161
Committed	519,208	29,016	548,224
Assigned	279,149	-	279,149
Unassigned	1,866,092	(1,089,018)	777,074
Total Fund Balances	<u>2,746,371</u>	<u>(328,863)</u>	<u>2,417,508</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 4,128,784</u>	<u>\$ 2,653,959</u>	<u>\$ 6,782,743</u>

Town of Shirley, Massachusetts
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Fiscal Year Ended June 30, 2017

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<u>Revenues:</u>			
Property Taxes	\$ 10,209,363	\$ -	\$ 10,209,363
Tax Liens	56,623	-	56,623
Excises	928,100	-	928,100
Penalties and Interest	67,647	-	67,647
Licenses and Permits	182,389	-	182,389
Fees and Other Departmental	159,533	7,633	167,166
Intergovernmental	1,742,684	878,800	2,621,484
Charges for Services	-	344,558	344,558
Fines and Forfeits	14,366	-	14,366
Earnings on Investments	56,423	5,055	61,478
In Lieu of Taxes	17,640	4,609	22,249
Contributions	-	34,829	34,829
Miscellaneous	31,094	4,001	35,095
Total Revenues	<u>13,465,862</u>	<u>1,279,485</u>	<u>14,745,347</u>
<u>Expenditures:</u>			
Current			
General Government	1,087,091	999,267	2,086,358
Public Safety	1,497,984	294,673	1,792,657
Education	7,868,140	200	7,868,340
Highways and Public Works	616,441	132,617	749,058
Human Services	143,232	30,217	173,449
Culture and Recreation	229,023	243,694	472,717
Debt Service	489,797	-	489,797
Intergovernmental	61,054	-	61,054
Employee Benefits	1,580,198	-	1,580,198
Total Expenditures	<u>13,572,960</u>	<u>1,700,668</u>	<u>15,273,628</u>
Excess of Revenues Over (Under) Expenditures	<u>(107,098)</u>	<u>(421,183)</u>	<u>(528,281)</u>
Other Financing Sources (Uses):			
Transfers In	26,445	123,412	149,857
Transfers (Out)	(74,862)	(24,863)	(99,725)
Total Other Financing Sources (Uses)	<u>(48,417)</u>	<u>98,549</u>	<u>50,132</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(155,515)</u>	<u>(322,634)</u>	<u>(478,149)</u>
Fund Balance, July 1, 2016	<u>2,901,886</u>	<u>(6,229)</u>	<u>2,895,657</u>
Fund Balance, June 30, 2017	<u>\$ 2,746,371</u>	<u>\$ (328,863)</u>	<u>\$ 2,417,508</u>

Town of Shirley, Massachusetts
Reconciliation of the Governmental Funds Balance Sheet
Total Fund Balances to the Statement of Net Position
June 30, 2017

Total governmental fund balances	\$ 2,417,508
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	23,798,056
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	2,549,389
Deferred Outflows of Resources related to pensions are reported and amortized in the governmental activities. They are not current financial resources and, therefore, reported in the fund financial statements.	
Deferred Outflows of Resources	946,666
Deferred Inflows of Resources	(784,248)
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	
Bonds Payable	(2,449,526)
Accrued Interest on Bonds	(34,525)
Landfill Postclosure Payable	(112,345)
Net Pension Liability	(8,734,039)
Other Post Employment Benefit Obligations	(1,990,624)
Compensated Absences	(83,232)
Net position of governmental activities	<u>\$ 15,523,080</u>

Town of Shirley, Massachusetts
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
June 30, 2017

Net change in fund balances - total governmental funds \$ (478,149)

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the difference between depreciation and capital outlays in the current period.

Capital Outlay	537,033	
Depreciation	<u>(964,532)</u>	
Net Effect of Reporting Capital Assets		(427,499)

Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in Unavailable Revenue from the prior year to the current year.

365,388

The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on Net Position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal Payments on Bonds	<u>377,259</u>	
Net Effect of Reporting Long Term Debt		377,259

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. These amounts represent the change in these accounts from the prior fiscal year.

Compensated Absences Payable	(17,965)	
Accrued Interest Payable	4,535	
Landfill Payable	8,255	
Other Post Employment Benefits Payable	(199,275)	
Deferred Outflows of Resources - Pensions	486,066	
Deferred Inflows of Resources - Pensions	(750,197)	
Net Pension Liability	<u>208,187</u>	
Net Effect of Reporting Other Items		<u>(260,394)</u>

Change in Net Position of Governmental Activities \$ (423,395)

Town of Shirley, Massachusetts
Proprietary Funds
Statement of Net Position
June 30, 2017

	Business-Type Activities - Enterprise Fund		
	<u>Sewer</u>	<u>Other</u>	<u>Total</u>
Assets			
Current:			
Cash	\$ 2,965,762	\$ 319,942	\$ 3,285,704
Accounts Receivable, Net of Allowance for Uncollectibles			
User Charges	186,683	3,091	189,774
Sewer Liens	9,839	-	9,839
Tax Liens	2,856	-	2,856
Special Assessments	61,094	-	61,094
Special Assessment Liens	103,959	-	103,959
Noncurrent:			
Accounts Receivable:			
Special Assessments Not Yet Due	4,578,298	-	4,578,298
Assets Not Being Depreciated	29,989	-	29,989
Assets Being Depreciated, Net	11,859,247	153,000	12,012,247
Total Assets	<u>19,797,727</u>	<u>476,033</u>	<u>20,273,760</u>
Deferred Outflows of Resources			
Pensions	5,796	13,524	19,320
Total Deferred Inflows of Resources	<u>5,796</u>	<u>13,524</u>	<u>19,320</u>
Liabilities			
Current:			
Warrants Payable	26,646	4,712	31,358
Accrued Interest Payable	3,970	-	3,970
Compensated Absences	-	464	464
Bonds Payable	991,737	-	991,737
Other Liabilities	-	-	-
Noncurrent:			
Compensated Absences	-	199	199
Bonds Payable	3,149,990	-	3,149,990
Net Pension Liability	53,474	124,772	178,246
Other Post Employment Benefit Obligations	40,253	39,297	79,550
Total Liabilities	<u>4,266,070</u>	<u>169,444</u>	<u>4,435,514</u>
Deferred Inflows of Resources			
Pensions	4,802	11,204	16,006
Total Deferred Inflows of Resources	<u>4,802</u>	<u>11,204</u>	<u>16,006</u>
Net Position			
Net Investment in Capital Assets	7,747,509	153,000	7,900,509
Unrestricted	7,785,142	155,909	7,941,051
Total Net Position	<u>\$ 15,532,651</u>	<u>\$ 308,909</u>	<u>\$ 15,841,560</u>

Town of Shirley, Massachusetts
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
June 30, 2017

	Business - Type Activities - <u>Enterprise Fund</u>		
	<u>Sewer Enterprise</u>	<u>Other Enterprise</u>	<u>Total Enterprise</u>
Operating Revenues:			
Charges for Services	\$ 402,324	\$ 360,809	\$ 763,133
Total Operating Revenues	<u>402,324</u>	<u>360,809</u>	<u>763,133</u>
Operating Expenditures:			
Personal Services	13,571	168,917	182,488
Nonpersonal Services	494,865	213,986	708,851
Depreciation	345,365	18,000	363,365
Total Operating Expenditures	<u>853,801</u>	<u>400,903</u>	<u>1,254,704</u>
Operating Income	<u>(451,477)</u>	<u>(40,094)</u>	<u>(491,571)</u>
Nonoperating Revenues (Expenses):			
Earnings on Investments	11,705	5,080	16,785
Committed Interest on Special Assessments	138,750	-	138,750
Betterment - Privilege Fee	18,770	-	18,770
Intergovernmental	403,267	-	403,267
Interest on Debt	(230,264)	-	(230,264)
Total Nonoperating Revenues (Expenses)	<u>342,228</u>	<u>5,080</u>	<u>347,308</u>
Income Before Capital Contributions and Transfers	<u>(109,249)</u>	<u>(35,014)</u>	<u>(144,263)</u>
Capital Contributions and Transfers:			
Transfers Out	(40,429)	(9,703)	(50,132)
Total Capital Contributions and Transfers	<u>(40,429)</u>	<u>(9,703)</u>	<u>(50,132)</u>
Change in Net Position	<u>(149,678)</u>	<u>(44,717)</u>	<u>(194,395)</u>
Net Position July 1, 2016	<u>15,682,329</u>	<u>353,626</u>	<u>16,035,955</u>
Net Position June 30, 2017	<u>\$ 15,532,651</u>	<u>\$ 308,909</u>	<u>\$ 15,841,560</u>

Town of Shirley, Massachusetts
Statement of Cash Flows
Proprietary Funds
June 30, 2017

	<u>Sewer</u>	<u>Other</u>
Cash Flows from Operating Activities:		
Receipts from Customers	\$ 444,041	\$ 418,412
Payments to Employees	(13,571)	(168,400)
Payments to Vendors	(473,194)	(208,008)
Net Cash Flows Provided (Used) by Operating Activities	<u>(42,724)</u>	<u>42,004</u>
Cash Flows from Non Capital Related Financing Activities		
Transfers from/to Other Funds	<u>(40,429)</u>	<u>(9,703)</u>
Net Cash Flows Provided (Used) by Non Capital Related Financing Activities	<u>(40,429)</u>	<u>(9,703)</u>
Cash Flows from Capital and Related Financing Activities:		
Acquisition of Capital Assets	(87,500)	-
Special Assessments	767,059	-
Principal Payments on Notes and Bonds	(781,779)	-
Interest Expense	(12,287)	-
Net Cash Flows Provided (Used) by Capital and Related Financing Activities	<u>(114,507)</u>	<u>-</u>
Cash Flows from Investing Activities:		
Earnings on Investments	<u>11,705</u>	<u>5,080</u>
Net Cash Flows Provided (Used) by Investing Activities	<u>11,705</u>	<u>5,080</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(185,955)	37,381
Cash and Cash Equivalents, July 1, 2016	<u>3,151,717</u>	<u>282,561</u>
Cash and Cash Equivalents, June 30, 2017	<u>\$ 2,965,762</u>	<u>\$ 319,942</u>
Reconciliation of Net Income to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	\$ (451,477)	\$ (40,094)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	345,365	18,000
(Increase) Decrease in Deferred Outflows Related to Pensions	(2,503)	(6,937)
(Increase) Decrease in Accounts Receivable	41,717	57,603
Increase (Decrease) in Warrants and Accounts Payable	26,646	4,712
Increase (Decrease) Compensated Absences Payable	-	517
Increase (Decrease) Other Post Employment Benefits Payable	3,434	590
Increase (Decrease) in Deferred Inflows Related to Pensions	4,559	10,717
Increase (Decrease) in Net Pension Liability	(10,465)	(3,104)
Net Cash Provided by Operating Activities	<u>\$ (42,724)</u>	<u>\$ 42,004</u>

Town of Shirley, Massachusetts

Fiduciary Funds

Statement of Net Position

June 30, 2017

	Private Purpose <u>Trust</u>	Other Post Employment <u>Benefits</u>	<u>Agency</u>
Assets			
Cash	\$ 343,077	\$ 32,377	\$ 991,459
Total Assets	343,077	32,377	991,459
Liabilities			
Current:			
Warrants Payable	-	-	49,519
Employees' Withholding Payable	-	-	29,125
Performance Bonds Payable	-	-	885,537
Details Payable	-	-	(9,146)
Other Liabilities	-	-	36,424
Total Liabilities	-	-	991,459
Net Position			
Held In Trust for:			
Other Post Employment Benefits	-	32,377	-
Other Purposes	343,077	-	-
Total Net Position	\$ 343,077	\$ 32,377	\$ -

Town of Shirley, Massachusetts
Fiduciary Funds
Statement of Changes in Net Position
June 30, 2017

	Private Purpose <u>Trust</u>	Other Post Employment <u>Benefits</u>
Additions:		
Employer Contributions	\$ -	\$210,300
Earnings on Investments	<u>5,234</u>	<u>1,673</u>
Total Additions	<u>5,234</u>	<u>211,973</u>
Deductions		
Disbursements	<u>5,000</u>	<u>200,300</u>
Change in Net Position	<u>234</u>	<u>11,673</u>
Net Position:		
Beginning of the Year	<u>342,843</u>	<u>20,704</u>
Ending of the Year	<u><u>\$ 343,077</u></u>	<u><u>\$ 32,377</u></u>

Town of Shirley, Massachusetts
Notes to the Financial Statements
June 30, 2017

I. **Summary of Significant Accounting Policies**

The accounting policies of the Town of Shirley, Massachusetts, as reflected in the accompanying financial statements for the year ended June 30, 2017, conform to accounting principles generally accepted in the United States of America for local government units, except as indicated hereafter.

The more significant accounting policies of the Town are summarized below.

(A) **Reporting Entity**

The Town's basic financial statements include the operations of all organizations for which the Board of Selectmen exercises oversight responsibility. Oversight responsibility is demonstrated by financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

As of July 1, 2011, the school system of the Town of Shirley became part of the Ayer-Shirley Regional School District, a separate and distinct entity. As a result, the financial activity of the School District is not reported in the accompanying financial statements (except for the regional school assessment reported in the general fund).

Based on the aforementioned oversight criteria, the Town was the only entity included in the accompanying basic financial statements.

(B) **Government-wide and fund financial statements**

Government-Wide Financial Statements

The **government-wide financial statements** (i.e., the **statement of net position** and the **statement of activities**) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of the interfund activity has been removed from these statements. Government activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Major Fund Criteria

Major funds must be reported if the following criteria are met:

- If the total assets and deferred outflows, liabilities and deferred inflows, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10% of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), and
- If the total assets and deferred outflows, liabilities and deferred inflows, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5% of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

(C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the enterprise fund and the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. These revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Primary sources of revenue considered susceptible to accrual consist principally of real estate and personal property taxes, motor vehicle excise taxes, amounts due under grants, charges for services and investment income.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: (1) accumulated vacation, accumulated sick pay, and other employee amounts which are not to be liquidated from expendable and available resources; and (2) debt service expenditures which are recognized when due.

The Town reports the following major governmental fund:

General Fund – This is the Town’s general operating fund. It accounts for all financial resources of the general government except those required to be accounting for in another fund.

The nonmajor governmental funds consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the nonmajor governmental funds column on the

governmental funds financial statements. The following types of funds are included in the nonmajor category:

The *special revenue fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than permanent funds or capital projects.

The *capital projects fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets of the governmental funds.

The *permanent fund* is primarily used to account for and report financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

Proprietary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Town reports the following major proprietary fund:

Sewer Fund – This fund is used to account for the activities related to the sewer system.

In addition, the Town utilizes proprietary funds to account for its ambulance service and the trash collection operations.

Fiduciary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the governmental programs.

The following fiduciary fund types are reported:

The private-purpose trust fund is used to account for trust arrangements that exclusively benefit individuals, private organizations, or other governments. Some of these trusts have donor restrictions and trustee policies that do not allow the endowment portion to be spent. The Town maintains a private purpose trust fund for several charitable trusts funds and an Other Post Employment Benefits trust fund.

The agency fund is used to account for assets held in a purely custodial capacity.

(D) **Assets/Deferred Outflows, Liabilities/Deferred Inflows and Net Position or Equity**

i **Deposits and Investments**

The Town's cash and cash equivalents are considered to be demand deposits and short term investments with original maturities of three months or less from the date of acquisition.

State and local statutes place certain limitations on the nature of deposits and investments available to the Town. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain prescribed levels without collateralization by the financial institutions involved. Investments can also be made in

securities issued by or unconditionally guaranteed by the U.S. government or agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase, and units in the Massachusetts Municipal Depository Trust ('MMDT').

Certain governmental funds (primarily trust funds) have broader investment powers which allow for investments in common stocks, corporate bonds and other types of investments.

ii Property Taxes

The Town's fiscal year runs from July 1 to June 30. Taxes are levied to the owner of record on the preceding January 1. The Town bills property taxes on a quarterly basis. Quarterly payments are due on August 1, November 1, February 1 and May 1. Property taxes attach as enforceable liens on property as of July 1 of the next fiscal year.

The Town is permitted under state law to levy property taxes up to 2.5% of the full and fair cash value of the Town's property. In addition, the law limits the amount by which the property tax levy can be increased to 2.5% of the preceding year's levy plus any new growth. Debt exclusions, capital exclusions and overrides of Proposition 2 ½ may be approved by a vote of the Town.

iii Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives is not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Infrastructure	40-50
Vehicles	5-10
Other Equipment	10
Office Equipment	5

iv. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and the balance sheet will sometimes report a separate section for **deferred outflows** of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the statement of net position and the balance sheet will sometimes report a separate section for **deferred inflows** of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The Town's governmental fund financial statements (balance sheet) reflect deferred inflows of resources for revenues that do not meet the "available" criteria. The government wide financial statements (statement of net position) reflect deferred outflows and deferred inflows of resources related to pensions.

v. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Middlesex County Retirement System and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

vi. Net Position and Fund Equity

Government-Wide Financial Statements (Net Position)

Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows.

Net position reported as "net investment in capital assets" includes capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be debt used to acquire capital assets.

Net position is reported as restricted when there is an externally imposed restriction on its use or it is limited by enabling legislation.

Fund Financial Statements (Fund Balances)

Fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to the constraints on the specific purposes for which the amounts in those funds can be spent.

GASB 54 requires that the Town report fund balance amounts within one of the fund balance categories list below.

1. **Nonspendable**, includes amounts that cannot be spent because they are (a) not in spendable form (such as fund balance associated with inventories) or are (b) legally or contractually required to stay intact (i.e. corpus of a permanent trust fund),

2. **Restricted**, constraints are placed on the use of resources that can be spent only for specific purposes. The constraints are either (a) imposed by creditors, grantors or contributors, or (b) imposed by law through constitutional provisions or through enabling legislation,

3. **Committed**, includes amounts that can be used only for the specific purposes determined by a formal action of Town meeting (the Town's highest level of decision-making authority).

Committed fund balance cannot be used for any other purpose unless the same formal action (i.e. Town meeting vote) that was taken to commit the fund balance is taken to uncommit it or commit it for another purpose,

4. **Assigned**, intended (by the Board of Selectmen, Town Administrator or Town Accountant) to be used by the government for specific purposes, but does not meet the criteria to be classified as restricted or committed, and

5. **Unassigned**, the residual classification for the government's general fund and includes all spendable amounts not contained in the restricted, committed or assigned categories.

The Town has not formally adopted a policy for its use of unrestricted fund balance. Therefore, in accordance with GASB 54, it is considered that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

Details of Fund Balance Classifications

The following schedule shows the detail of the fund balance classifications displayed in the aggregate on the Town's balance sheet.

	<u>General Fund</u>	<u>Non Major Funds</u>	<u>Total</u>
Fund Balances:			
Nonspendable:			
Education	\$ -	\$ 10,000	\$ 10,000
Highways and Public Works	-	152,171	152,171
Culture and Recreation	-	729	729
Total Nonspendable:	<u>-</u>	<u>162,900</u>	<u>162,900</u>
Restricted for:			
General Government	-	139,434	139,434
Public Safety	-	46,459	46,459
Education	-	90,666	90,666
Highways and Public Works	-	26,596	26,596
Human Services	-	96,474	96,474
Culture and Recreation	-	168,610	168,610
Debt Service	81,922	-	81,922
Total Restricted:	<u>81,922</u>	<u>568,239</u>	<u>650,161</u>
Committed to:			
General Government	16,697	28,060	44,757
Public Safety	1,533	-	1,533
Highways and Public Works	45,155	-	45,155
Culture and Recreation	-	956	956
Capital Stabilization	455,823	-	455,823
Total Committed:	<u>519,208</u>	<u>29,016</u>	<u>548,224</u>
Assigned to:			
General Government	55	-	55
Public Safety	360	-	360
Culture and Recreation	120	-	120
Employee Benefits	5,000	-	5,000
Fund Subsequent Year's Budget	273,614	-	273,614
Total Assigned:	<u>279,149</u>	<u>-</u>	<u>279,149</u>
Unassigned	<u>1,866,092</u>	<u>(1,089,018)</u>	<u>777,074</u>
Total Fund Balances:	<u>\$ 2,746,371</u>	<u>\$ (328,863)</u>	<u>\$ 2,417,508</u>

Stabilization Fund

The Town established stabilization funds in accordance with Massachusetts General Laws Chapter 40 Section 5B. That section of the law stipulates that “cities, towns and districts may create one or more stabilizations funds and appropriate any amount into the funds. Any interest shall be added to and become part of the fund”.

“The treasurer shall be the custodian of all such funds and may deposit the proceeds in national banks or invest the proceeds by deposit in savings banks, co-operative banks or trust companies organized under the laws of the commonwealth, or invest the same in such securities as are legal for the investment of funds of savings banks under the laws of the commonwealth or in federal savings and loans associations situated in the commonwealth”.

“At the time of creating any such fund the city, town or district shall specify, and at any later time may alter, the purpose of the fund, which may be for any lawful purpose, including without limitation an approved school project under chapter 70B or any other purpose for which the city, town or district may lawfully borrow money. Such specification and any such alteration of purpose, and any appropriation of funds into or out of any such fund, shall be approved by two-thirds vote, except as provided in paragraph (g) of section 21C of chapter 59 for a majority referendum vote. Subject to said section 21C, in a town or district any such vote shall be taken at an annual or special town meeting and in a city any such vote shall be taken by city council”.

As of June 30, 2017, the Town’s stabilization fund had a balance of \$823,590. The stabilization fund is reported as a component of unassigned fund balance in the general fund on the Town’s balance sheet. In addition, the Town’s capital stabilization fund had a balance of \$455,823. The capital stabilization fund is reported as a component of committed fund balance in the general fund on the Town’s balance sheet.

vii. Compensated Absences

The liabilities for compensated absences reported in the government-wide and proprietary fund statements consist of unpaid, accumulated annual vacation and sick leave benefits.

viii. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs are reported as debt service expenditures.

ix. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

x. Warrants Payable

The balance in this account consists of those warrants approved by the Selectmen for payment between July 1, 2017 and July 15, 2017. These warrants have been recorded as expenditures during the fiscal year ended June 30, 2017 and the corresponding credit is to the account entitled warrants payable.

xi. Total Column

Government-Wide Financial Statements

The total column presented on the government-wide financial statements represents consolidated financial information.

Fund Financial Statements

The total column on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

II Stewardship, Compliance and Accountability

(A) Budgetary Information

i General Budget Policies

Budget requests are prepared by the various Town departments and submitted to the Selectmen and Finance Committee for review during January, February and March of each year. The Selectmen and Finance Committee have until April/May, which is when the annual Town meeting is held, to make any changes to the departments' requests. After approval of the budget at the annual Town meeting, the tax recapitulation (recap) sheet is prepared. During this process the property tax rate is determined and the recap sheet is sent to the Department of Revenue for approval.

Encumbrance accounting is utilized when purchase orders, contracts or other commitments for purchases are recorded in order to reserve that portion of the applicable appropriations.

ii Budget Basis of Accounting

The final budget appearing in the required supplementary information section of the financial statements is taken from the Town's annual recap sheet and includes those amounts which pertain to fiscal 2017 adjusted for any special Town meeting votes applicable to fiscal 2017 and reserve fund transfers authorized by the Finance Committee.

The following reconciliation summarizes the differences between the budget basis and the Generally Accepted Accounting Principles basis (fund financial statement) for the year ended June 30, 2017.

	<u>Revenues</u>
As Reported Budget Basis	\$ 13,434,094
Adjustments:	
Sixty Day Property Tax Accrual - Net	4,321
Earnings on Investments from Stabilization Fund	27,447
As Reported Fund Financial Statement	<u>\$ 13,465,862</u>
	<u>Expenditures</u>
As Reported Budget Basis	\$ 13,565,800
Adjustments:	
July 1, 2016 Encumbrances	66,080
June 30, 2017 Encumbrances	(68,920)
Transfer to OPEB Trust is an Employee Benefits expense (GAAP)	10,000
As Reported Fund Financial Statement	<u>\$ 13,572,960</u>

III Detailed Notes on All Funds

A. Deposits

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a formal deposit policy for custodial credit risk. As of June 30, 2017, \$216,177 of the Town's bank balance of \$5,019,187 was exposed to credit risk.

Uninsured and Uncollateralized \$ 216,177

Investments

As of June 30, 2017, the Town had the following investments and maturities.

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1-5	6-10
Debt Related Securities:				
U. S. Government Obligations	\$ 1,122,786	\$ -	\$ 1,122,786	\$ -
Certificate Deposits	-	-	-	-
Corporate Bonds	633,817	633,817	-	-
Total	1,756,603	\$ 633,817	\$ 1,122,786	\$ -
Other Investments:				
Money Market Funds	128,182			
Mutual Funds	239,288			
Equities	1,099,328			
Mass. Municipal Depository Trust	747,190			
Total Other Investments	2,213,988			
Total Investments	\$ 3,970,591			

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Commonwealth of Massachusetts has an investment "legal list" that the Town follows. However, the Town does not have its own formal policy relating to credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Town does not have a formal policy that limits the amount it may invest in a single issuer.

Fair Value Measurement

Statement #72 of the Government Accounting Standards Board ("GASB") *Fair Value Measurements and Application*, sets forth the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GASB 72 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Town has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the Towns' own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the Town's own data.

The Town holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the Town's mission, the Town determines that the disclosures related to these investments only need to be disaggregated by major type. The Town chooses a tabular format for disclosing the levels within the fair value hierarchy.

The Town has the following recurring fair value measurements as of June 30, 2017:

<u>Fair Value Measurements Using</u>				
	<u>Total</u>	<u>Level 1</u> Quoted Prices in Active Markets for Identical Assets	<u>Level 2</u> Significant Other Observable Inputs	<u>Level 3</u> Significant Unobservable Inputs
Investment by Fair Value Level:				
U. S. Treasuries	\$ 1,122,786	\$ 1,122,786	\$ -	\$ -
Corporate Bonds	633,817	-	633,817	-
Mutual Funds	239,288	239,288	-	-
Common Stock	1,099,328	1,099,328	-	-
Money Market Mutual Funds	128,182	128,182	-	-
Total Assets in the Fair Value Hierarchy	<u>3,223,401</u>	<u>2,589,584</u>	<u>633,817</u>	<u>-</u>

Investments Not Subject to Fair Value Hierarchy reporting:

Mass. Municipal Depository Trust	<u>747,190</u>
Total Investments	<u>\$ 3,970,591</u>

The investments classified in Level 1 of the fair value hierarchy were valued using prices quoted in active markets for those securities.

B. Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Government Activities:				
Land	\$ 5,574,662	\$ -	\$ -	\$ 5,574,662
Construction in Progress	-	43,600	-	43,600
Total Capital Assets Not Being Depreciated	<u>5,574,662</u>	<u>43,600</u>	<u>-</u>	<u>5,618,262</u>
Assets Being Depreciated:				
Buildings	25,056,239	193,633	-	25,249,872
Improvements Other Than Buildings	775,993	-	-	775,993
Infrastructure	6,912,741	-	-	6,912,741
Equipment	1,697,989	249,199	(134,079)	1,813,109
Vehicles	2,646,004	50,601	(49,481)	2,647,124
Other	138,350	-	-	138,350
Total Capital Assets Being Depreciated	<u>37,227,316</u>	<u>493,433</u>	<u>(183,560)</u>	<u>37,537,189</u>
Less Accumulated Depreciation for:				
Buildings	(9,719,511)	(652,742)	-	(10,372,253)
Improvements Other Than Buildings	(505,257)	(53,910)	-	(559,167)
Infrastructure	(4,603,845)	(90,370)	-	(4,694,215)
Equipment	(1,452,568)	(54,265)	134,079	(1,372,754)
Vehicles	(2,156,892)	(113,245)	49,481	(2,220,656)
Other	(138,350)	-	-	(138,350)
Total Accumulated Depreciation	<u>(18,576,423)</u>	<u>(964,532)</u>	<u>183,560</u>	<u>(19,357,395)</u>
Capital Assets Being Depreciated, Net	<u>18,650,893</u>	<u>(471,099)</u>	<u>-</u>	<u>18,179,794</u>
Governmental Activities Capital Assets, Net	<u>\$ 24,225,555</u>	<u>\$ (427,499)</u>	<u>\$ -</u>	<u>\$ 23,798,056</u>

Depreciation expense was charged to functions as follows:

Government Activities:	
General Government	\$ 154,709
Public Safety	115,775
Education	465,086
Highways and Public Works	166,626
Human Services	5,996
Culture and Recreation	56,340
Total Governmental Activities Depreciation Expense	<u>\$ 964,532</u>

B. Capital Assets (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance
Business-Type Activities:				
Land	\$ 29,989	\$ -	\$ -	\$ 29,989
Total Capital Assets not Being Depreciated	<u>29,989</u>	<u>-</u>	<u>-</u>	<u>29,989</u>
Assets Being Depreciated:				
Infrastructure	17,039,060	-	-	17,039,060
Equipment	62,000	87,500	-	149,500
Vehicles	260,437	-	-	260,437
Total Capital Assets Being Depreciated	<u>17,361,497</u>	<u>87,500</u>	<u>-</u>	<u>17,448,997</u>
Less Accumulated Depreciation for:				
Infrastructure	(4,921,949)	(340,990)	-	(5,262,939)
Equipment	45,194	(4,375)	-	40,819
Vehicles	(196,630)	(18,000)	-	(214,630)
Total Accumulated Depreciation	<u>(5,073,385)</u>	<u>(363,365)</u>	<u>-</u>	<u>(5,436,750)</u>
Capital Assets Being Depreciated, Net	<u>12,288,112</u>	<u>(275,865)</u>	<u>-</u>	<u>12,012,247</u>
Business-Type Activities Capital Assets, Net	<u>\$ 12,318,101</u>	<u>\$ (275,865)</u>	<u>\$ -</u>	<u>\$ 12,042,236</u>
Depreciation expense was charged to functions as follows:				
Business-type Activities:				
Sewer		\$ 345,365		
Other		18,000		
Total Business-type Activities Depreciation Expense		<u>\$ 363,365</u>		

C. Accounts Receivable

The accounts receivable on the combined balance sheet are listed below by levy.

Governmental Activities

Property Taxes Receivable:

Real Estate Taxes	
2017	\$ 248,510
2016	50,981
2015	20,606
2014	9,451
2013	2,630
Clause 41A Real Estate	7,771
Supplemental Real Estate	22,278
Rollback Taxes	1,392
Total Real Estate Taxes	<u>\$ 363,619</u>

C. Accounts Receivable (Continued)

Personal Property Taxes		
2017	9,359	
2016	2,326	
2015	1,902	
2014	1,534	
2013	51	
2012	82	
Total Personal Property Taxes	<u>15,254</u>	
Total Property Taxes Receivable		<u>\$ 378,873</u>
Tax Liens Receivable		<u>\$ 846,575</u>
Excise Taxes Receivable:		
Motor Vehicle Excise Taxes		
2017	\$79,064	
2016	13,416	
2015	6,011	
2014	4,412	
2013	3,065	
2012	2,448	
2011	3,149	
2010	2,755	
2009 & Prior	<u>215</u>	
Total Excise Taxes Receivable		<u>\$ 114,535</u>
Intergovernmental:		
Commonwealth of Massachusetts - for		
Highway Projects	<u>\$ 1,210,862</u>	
Total Intergovernmental		<u>\$ 1,210,862</u>
Septic Loan Receivable:		
Septic Repair Loan		<u>\$ 107,258</u>
Other Receivable:		
Health Insurance Premium		<u>\$ 9,212</u>

C. Accounts Receivable (Continued)

Business Type Activities

Sewer Tax Liens	\$ 2,856
-----------------	----------

Special Assessments:

Current:

Betterments Added to Taxes 2017	\$21,682	
Betterments Added to Taxes 2016	6,483	
Betterments Added to Taxes 2015	2,264	
Betterments Added to Taxes 2014 & Prior	1,472	
Committed Interest Added to Taxes 2017	18,193	
Committed Interest Added to Taxes 2016	10,283	
Committed Interest Added to Taxes 2015	475	
Committed Interest Added to Taxes 2014 & Prior	242	
Total Current Special Assessments		\$ 61,094

Special Assessments Liens

Sewer Betterment Liens	\$ 103,959
------------------------	------------

User Charges:

Sewer	\$186,683	
Ambulance	3,091	
Total User Charges		\$ 189,774

Sewer Liens:

Utility Liens Added to Taxes	\$ 9,839
------------------------------	----------

Noncurrent:

Special Assessments:

Chapter Land	\$93,750	
Senior Not Yet Due - Sewer Assessments	46,875	
Apportioned Sewer Betterments Not Yet Due	4,437,673	
Total Non Current Special Assessments		\$ 4,578,298

D. Debt

i Short Term Debt

The Town had the following notes payable outstanding as of June 30, 2017 as follows:

<u>Purpose</u>	<u>Type</u>	<u>Balance</u> <u>Beginning</u> <u>of Year</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance</u> <u>End</u> <u>of Year</u>	<u>Interest</u> <u>Rate</u>	<u>Maturity</u> <u>Date</u>
<u>Governmental Activities:</u>							
Septic Loan Program	BAN	\$ 51,924	\$ -	\$ -	\$ 51,924		rolling
Energy Performance Contract	BAN	476,517	427,655	476,517	427,655		
Ambulance	BAN	180,000	180,000	180,000	180,000	1.25%	6/29/2018
DPW Pickup Truck	BAN	52,150	52,150	52,150	52,150	1.25%	6/29/2018
Virtual Server	BAN	17,094	17,094	17,094	17,094	1.25%	6/29/2018
Article 4-23-16	BAN	-	120,891	-	120,891		
IT Server New	BAN	-	20,000	-	20,000	1.25%	6/29/2018
Back Hoe	BAN	-	132,500	-	132,500	1.25%	6/29/2018
Fire Protective Gear	BAN	-	176,780	-	176,780	1.25%	6/29/2018
Fire Truck	BAN	-	68,000	-	68,000	1.25%	6/26/2018
Bridge Repair - Chapter 90	SAN	-	391,000	-	391,000	1.25%	1/3/2018
Total Notes Payable Governmental Activities		<u>\$ 777,685</u>	<u>\$ 1,586,070</u>	<u>\$ 725,761</u>	<u>\$ 1,637,994</u>		

ii Long Term Debt

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities and other authorized purposes. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as serial bonds with equal amounts of principal maturing each year with maturities that range from 5 to 30 years. General obligation bonds outstanding at June 30, 2017 are as follows:

(a) General Obligation Bonds Outstanding at June 30, 2017

<u>Governmental Activities:</u>	<u>Fiscal Year</u>	<u>Original</u>	<u>Interest Rates</u>	<u>Fiscal Year</u>	<u>Balance</u>			<u>Balance</u>
<u>General Obligation Bond</u>	<u>Sale Date</u>	<u>Borrowing</u>	<u>to Maturities</u>	<u>Final Maturity</u>	<u>July 1, 2016</u>	<u>Issued</u>	<u>Redeemed</u>	<u>June 30, 2017</u>
Library Construction	1997	\$ 1,045,000	3.00%	2016	\$ -	\$ -		\$ -
Capital Plan Issue #3	2006	5,404,000	4.00%	2026	\$ 2,340,000	\$ -	\$ (270,000)	\$ 2,070,000
MWPAT - Septic Loan	2007	29,492	0.00%	2025	14,704	-	(1,649)	13,055
Townsend Road Construction	2012	103,018	2.75%	2017	20,603	-	(20,603)	-
Capital Plan Issue # 2	2013	378,854	3.00%	2018	117,927	-	(61,934)	55,993
MWPAT - Septic Loan	2013	72,661	0.00%	2033	61,761	-	(3,633)	58,128
Town Hall Building Remodeling	2015	20,279	4.90%	2030	18,920	-	(1,355)	17,565
Library Carpet	2015	35,000	4.90%	2030	32,650	-	(2,350)	30,300
DPW Truck	2015	154,342	4.90%	2030	144,050	-	(10,290)	133,760
Bridge Reconstruction	2015	81,618	4.90%	2030	76,170	-	(5,445)	70,725
Total Governmental Activities					<u>\$ 2,826,785</u>	<u>\$ -</u>	<u>\$ (377,259)</u>	<u>\$ 2,449,526</u>

D. Debt (Continued)

<u>Business Type Activities:</u>	Fiscal Year	Original	Interest Rates		Balance			Balance
<u>General Obligation Bond</u>	<u>Sale Date</u>	<u>Borrowing</u>	<u>to Maturities</u>	<u>Final Maturity</u>	<u>July 1, 2016</u>	<u>Issued</u>	<u>Redeemed</u>	<u>June 30, 2017</u>
WPAT Loan 98-131	2001	\$ 1,382,561	2.00%	2021	\$ 445,000	\$ -	\$ (85,000)	\$ 360,000
WPAT Loan 99-32	2001	6,272,676	2.00%	2021	2,015,000	-	(380,000)	1,635,000
WPAT Loan 00-12	2001	6,996,346	2.00%	2021	2,099,099	-	(397,379)	1,701,720
WPAT Loan 00-12A	2002	680,333	2.00%	2021	215,000	-	(40,000)	175,000
Refunding Capital Plan Issue # 2	2006	516,000	3.00%	2026	250,000	-	(25,000)	225,000
Refunding Capital Plan Issue # 2	2013	222,650	3.00%	2018	82,077	-	(38,066)	44,011
Capital Plan Issue #3	2013	5,996	4.00%	2018	1,996	-	(1,000)	996
Total Business Type Activities					<u>\$ 5,108,172</u>	<u>\$ -</u>	<u>\$ (966,445)</u>	<u>\$ 4,141,727</u>

(b) Summary of Debt Service Requirements to Maturity

	Governmental		Business-type		Total	
	<u>Activities</u>		<u>Activities</u>		<u>Primary Government</u>	
<u>Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 350,715	\$ 95,157	\$ 991,737	\$ 178,015	\$ 1,342,452	\$ 273,172
2019	294,721	82,534	985,755	127,500	1,280,476	210,034
2020	275,721	71,457	1,008,780	81,221	1,284,501	152,678
2021	275,717	60,957	1,028,455	32,389	1,304,172	93,346
2022	234,316	49,975	25,400	5,118	5,118	55,093
2023-2027	938,438	110,631	101,600	10,300	1,040,038	120,931
2028-2032	76,265	5,694	-	-	-	5,694
2033-2037	3,633	-	-	-	-	-
Total	<u>\$ 2,449,526</u>	<u>\$ 476,405</u>	<u>\$ 4,141,727</u>	<u>\$ 434,543</u>	<u>\$ 6,256,757</u>	<u>\$ 910,948</u>

D. Debt (Continued)

(c) Bond Authorizations

Long-term debt authorizations voted by the Town which have not been issued or rescinded as of June 30, 2017, are as follows:

<u>Date Authorized</u>	<u>Project</u>	<u>Amount</u>
June 14, 2004	Title V - Sewer	\$327,339
June 12, 2006	CTH Exterior Paint	662
November 13, 2007	Culvert Repair Townsend Road	1,166
December 13, 2010	Shaker Road Bridge Repair	262,579
August 5, 2013	Energy Performance Contracting	476,517
June 2, 2014	Plow and Sander	5,658
April 27, 2015	Ambulance	190,000
April 27, 2015	IT Virtual Server	90,926
April 27, 2015	DPW Truck	52,150
April 23, 2016	Backhoe	132,500
April 23, 2016	Fire Protection Gear	176,780
April 23, 2016	Energy Performance Contracting	193,633
November 19, 2016	Fire Truck	600,000
May 9, 2017	Fire Truck	<u>800,000</u>
	Total	<u>\$3,309,910</u>

(d) Subsidies through the Massachusetts Water Pollution Abatement Trust

The Massachusetts Water Pollution Abatement Trust was created by Chapter 275 of the Acts of 1989 to implement the State Revolving Fund Program (SRF) contemplated by the Title VI of the Federal Clean Water Act.

The Trust administers a SRF program which includes both a federal and state capitalized revolving fund. Loans are made from the fund to local governmental units to finance the costs of eligible water pollution abatement programs.

Local governments obtain financing through the SRF and receive subsidies but are obligated for the entire amount of the debt. Subsidies which will be utilized to offset debt service costs disclosed in the summary above are noted below:

	<u>SRF</u>
2018 \$	385,200
2019	362,547
2020	340,831
2021	<u>305,751</u>
Total Subsidies	<u>\$ 1,394,329</u>

D. Debt (Continued)

iii Changes in the government's long-term liabilities for the year ended June 30, 2017 are as follows:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Current Portion
<u>Governmental Activities</u>					
Bonds Payable	\$ 2,826,785	\$ -	\$ (377,259)	\$ 2,449,526	\$ 350,715
Compensated Absences	65,267	63,652	(45,687)	83,232	58,262
Landfill Closure Payable	120,600	(8,255)	-	112,345	8,380
Net Pension Liability	8,942,226	1,281,661	(1,489,848)	8,734,039	-
Other Post Employment Benefits	1,791,349	426,568	(227,293)	1,990,624	-
Total Governmental Activities	<u>\$ 13,746,227</u>	<u>\$ 1,763,626</u>	<u>\$ (2,140,087)</u>	<u>\$ 13,369,766</u>	<u>\$ 417,357</u>
<u>Business Type Activities</u>					
Bonds Payable	\$ 5,108,172	\$ -	\$ (966,445)	\$ 4,141,727	\$ 991,737
Compensated Absences	146	663	(146)	663	464
Net Pension Liability	191,815	25,499	(39,068)	178,246	-
Other Post Employment Benefits	75,526	7,431	(3,407)	79,550	-
Total Business Type Activities	<u>\$ 5,375,659</u>	<u>\$ 33,593</u>	<u>\$ (1,009,066)</u>	<u>\$ 4,400,186</u>	<u>\$ 992,201</u>

E. Interfund Transfers

The accompanying financial statements reflect transactions between the various funds. These transactions represent operating transfers and do not constitute revenues or expenditures of the funds. Operating transfers made during the year were as follows:

	Transfer In	Transfer (Out)	Total
General	\$ 26,445	\$ (74,862)	\$ (48,417)
Non-Major Governmental	123,412	(24,863)	98,549
Enterprise	-	(50,132)	(50,132)
Total	<u>\$ 149,857</u>	<u>\$ (149,857)</u>	<u>\$ -</u>

IV Other Information

A. Pension Plans

a. General Information about the Pension Plan Plan Description

The Town provides pension benefits to eligible employees by contributing to the Middlesex County Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Middlesex County Retirement System. The System is administered by a five member board on behalf of all eligible current employees and retirees. The system provides retirement benefits, cost of living adjustments, disability benefits and death benefits.

The system is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws (M.G.L.). The authority to establish and amend benefit provisions requires a statutory change to Chapter 32. The Middlesex County Retirement System issues a stand-alone financial report that is available to the public at <https://middlesexretirement.org/wp-content/uploads/2017/07/FINAL-MCRS-Audit-Report-of-Financial-Statements-12-31-2016.pdf> or by writing to the Middlesex County Retirement System, 25 Linnell Circle, P.O. Box 160, Billerica, Massachusetts 01865.

Benefits Provided

The Middlesex County Retirement System provides retirement, disability and death benefits as detailed below:

Retirement Benefits

Employees covered by the Contributory Retirement Law are classified into one of four groups depending on job classification. Group 1 comprises most positions in state and local government. It is the general category of public employees. Group 4 comprises mainly police and firefighters. Group 2 is for other specified hazardous occupations. (Officers and inspectors of the State Police are classified as Group 3.)

For employees hired prior to April 2, 2012, the annual amount of the retirement allowance is based on the member's final three-year average salary multiplied by the number of years and full months of creditable service at the time of retirement and multiplied by a percentage according to the table below based on the age of the member at retirement.

<u>Benefit %</u>	<u>Group 1</u>	<u>Group 2</u>	<u>Group 4</u>
		<u>Hired on or before April 1 2012</u>	
2.50%	65+	60+	55+
2.40%	64	59	54
2.30%	63	58	53
2.20%	62	57	52
2.10%	61	56	51
2.00%	60	55	50
1.90%	59	N/A	49
1.80%	58	N/A	48
1.70%	57	N/A	47
1.60%	56	N/A	46
1.50%	55	N/A	45

For employees hired on April 2, 2012 or later, the annual amount of the retirement allowance is based on the member's final five-year average salary multiplied by the number of years and full months of creditable service at the time of retirement and multiplied by a percentage according to the tables below based on the age and years of creditable service of the member at retirement:

<u>Benefit %</u>	<u>Group 1</u>	<u>Group 2</u>	<u>Group 4</u>
		<u>Hired after April 1 2012</u>	
2.50%	67+	62+	57+
2.35%	66	61	56
2.20%	65	60	55
2.05%	64	59	54
1.90%	63	58	53
1.75%	62	57	52
1.60%	61	56	51
1.45%	60	55	50

For all employees, the maximum annual amount of the retirement allowance is 80 percent of the member's final average salary. Any member who is a veteran also receives an additional yearly retirement allowance of \$15 per year of creditable service, not exceeding \$300. The veteran allowance is paid in addition to the 80 percent maximum.

Retirement Benefits - Superannuation

Members of Group 1, 2 or 4 hired prior to April 2, 2012 may retire upon the attainment of age 55. For retirement at ages below 55, twenty years of creditable service is required.

Members hired prior to April 2, 2012 who terminate before age 55 with ten or more years of creditable service are eligible for a retirement allowance upon the attainment of age 55 (provided they have not withdrawn their accumulated deductions from the Annuity Savings Fund of the System).

Members of Group 1 hired April 2, 2012 or later may retire upon the attainment of age 60. Members of Group 2 or 4 hired April 2, 2012 or later may retire upon the attainment of age 55. Members of Group 4 may retire upon attainment of age 50 with ten years of creditable service.

Members hired April 2, 2012 or later who terminate before age 55 (60 for members of Group 1) with ten or more years of creditable service are eligible for a retirement allowance upon the attainment of age 55 (60 for members of Group 1) provided they have not withdrawn their accumulated deductions from the Annuity Savings Fund of the System.

Ordinary Disability Benefits

A member who is unable to perform his or her job due to a non-occupational disability will receive a retirement allowance if he or she has ten or more years of creditable service and has not reached age 55. The annual amount of such allowance shall be determined as if the member retired for superannuation at age 55 (age 60 for Group 1 members hired on or after April 2, 2012), based on the amount of creditable service at the date of disability. For veterans, there is a minimum benefit of 50 percent of the member's most recent year's pay plus an annuity based on his or her own contributions.

Accidental Disability Benefit

For a job-connected disability, the benefit is 72 percent of the member's most recent annual pay plus an annuity based on his or her own contributions, plus additional amounts for surviving children. Benefits are capped at 75 percent of annual rate of regular compensation for employees who become members after January 1, 1988.

Death Benefits

In general, the beneficiary of an employee who dies in active service will receive a refund of the employee's own contributions. Alternatively, if the employee were eligible to retire on the date of death, a spouse's benefit will be paid equal to the amount the employee would have received under Option C. The surviving spouse of a member who dies with two or more years of credited service has the option of a refund of the employee's contributions or a monthly benefit regardless of eligibility to retire, if they were married for at least one year. There is also a minimum widow's pension of \$500 per month, and there are additional amounts for surviving children.

If an employee's death is job-connected, the spouse will receive 72 percent of the member's most recent annual pay, in addition to a refund of the member's accumulated deductions, plus additional amounts for surviving children. However, in accordance with Section 100 of Chapter 32, the surviving spouse of a police officer, firefighter or corrections officer who is

killed in the line of duty will be eligible to receive an annual benefit equal to the maximum salary held by the member at the time of death. Upon the death of a job-connected disability retiree who retired prior to November 7, 1996 and could not elect an Option C benefit, a surviving spouse will receive an allowance of \$9,000 per year if the member dies for a reason unrelated to cause of disability.

Contributions

Active members of the Middlesex County Retirement System contribute either 5%, 7%, 8% or 9% of their gross regular compensation depending on the date upon which their membership began. An additional 2% is required from employees for earnings in excess of \$30,000. The Town is required to pay an actuarially determined rate. The contribution requirement of plan members is determined by M.G.L. Chapter 32. The contribution requirements are established by and may be amended by the Middlesex County Retirement System with the approval of the Public Employee Retirement Administration Commission.

The Town's contractually required contribution rate for the year ended June 30, 2017 was 37.63% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Town were \$754,746 for the year ending June 30, 2017.

b. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the Town reported a liability of \$8,912,285 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Accordingly, update procedures were utilized to roll forward the liability to the measurement date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. At December 31, 2016, the Town's proportion was 0.629009%.

For the year ended June 30, 2017, the Town recognized pension expense of \$802,956. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 40,138	\$ -
Change in assumptions	485,599	-
Net differences between projected and actual earnings on pension plan investments	370,019	-
Changes in proportion and differences between contributions and proportionate share of contributions	70,230	(800,254)
Contributions subsequent to the measurement date	-	-
	<u>\$ 965,986</u>	<u>\$ (800,254)</u>

Contributions made subsequent to the measurement date (deferred outflows of resources) are recognized as a reduction of the net pension liability in the next fiscal year. The Town did not have any deferred outflows of resources for contributions made subsequent to the measurement date. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Amount
2018	\$ 67,408
2019	67,408
2020	61,030
2021	(30,114)

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2016, using the following actuarial assumptions, applied to all periods included in the measurement that was updated to December 31, 2016:

Valuation date	January 1, 2016			
Actuarial Cost Method	Entry age normal cost method			
Amortization Method	Prior year's total contribution increased by 6.5% for fiscal year 2018 through fiscal year 2024, and thereafter the remaining unfunded liability will be amortized on a 4.0% annual increasing basis; ERI Liability amortized in level payments.			
Remaining Amortization Period	As of July 1, 2016, 3 years remaining for the 2002 ERI liability; 4 years remaining for the 2003 ERI liability; 6 years remaining for the 2010 ERI liability and 19 years for the remaining unfunded liability.			
Asset Valuation Method	The difference between the expected return and the actual investment return on a market value basis is recognized over a five-year period. Asset value is adjusted, as necessary, to be within 20% of market value.			
Investment Rate of Return/Discount Rate	7.75% net of pension plan investment expense, including inflation (7.875% in previous valuation)			
Inflation Rate	3.50% (4.0% in previous valuation)			
Projected Salary Increases (The ultimate values in the previous valuation were 4.75% for Group 1 and 5.25% for Group 4)	Years of Service	Group 1	Group 2	Group 4
	0	6.00%	6.00%	7.00%
	1	5.50%	5.50%	6.50%
	2	5.50%	5.50%	6.00%
	3	5.25%	5.25%	5.75%
	4	5.25%	5.25%	5.25%
	5	4.75%	4.75%	5.25%
	6	4.75%	4.75%	4.75%
	7	4.50%	4.50%	4.75%
	8	4.50%	4.50%	4.75%
	9+	4.25%	4.50%	4.75%
Cost of Living Adjustments	3.00% of first \$14,000			
Rates of Retirement	Varies based upon age for general employees, police and fire employees.			
Rates of Disability	For general employees, it was assumed that 45% of all disabilities are ordinary (55% are service connected). For police and fire employees, 10% of all disabilities are assumed to be ordinary (90% are service connected).			
Mortality Rates were based on the tables noted below:				
Healthy:				
Pre-Retirement	RP-2000 Employee Mortality Table projected generationally from 2009 with Scale BB2D (previously, RP- Employee Mortality Table projected 22 years with scale AA)			
Health Retiree	RP-2000 Health Annuitant Mortality Table projected generationally from 2009 with Scale BB2D (previously, RP- Healthy Annuitant Mortality Table projected 17 years with scale AA)			
Disabled	RP-2000 Health Annuitant Mortality Table projected generationally from 2015 using Scale BB2D (previously Healthy Annuitant Mortality Table set forward 3 years projected 17 years with Scale AA)			

In performing the actuarial valuation, various assumptions are made regarding mortality, retirement, disability and withdrawal rates as well as salary increases and investment returns. A comparison of the results of the current valuation and the prior valuation is made to determine how closely actual experience relates to expected. The RP-2000 Employee Mortality Table projected 22 years with Scale AA and the RP-2000 Healthy Annuitant Mortality Table projected 17 years with Scale AA were determined to contain provisions appropriate to reasonably reflect future mortality improvement, based on a review of the mortality experience of the plan.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

	<u>Allocation</u>	<u>Rate of Return</u>
Domestic Equity	19.50%	7.50%
International Developed Markets Equity	16.80%	7.83%
Emerging Markets Equity	6.90%	9.61%
Core Fixed Income	12.30%	3.75%
Value Added Fixed Income	8.30%	7.26%
Private Equity	11.10%	9.50%
Real Estate	10.00%	6.50%
Timber/Natural Resources	3.60%	6.00%
Hedge Funds	9.00%	6.48%
Liquidating Portfolios	0.40%	6.48%
Portfolio Completion Strategies	1.10%	6.48%
Overlay	1.00%	6.48%
	<u>100.00%</u>	

Rate of Return

The annual money-weighted rate of return on pension plan investments for December 31, 2016 (net of investment expenses) was 7.35%. (0.61% for December 31, 2015). The money-weighted rate of return expresses investment performance, net of pension plan investment expense, is adjusted for the changing amounts actually invested, measured monthly.

Discount Rate

The discount rate used to measure the total pension liability was 7.75% (7.875 % in the previous valuation). The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that the Middlesex County Retirement System contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on

pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Town's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Middlesex County Retirement System, calculated using the discount rate of 7.75%, as well as what the Middlesex County Retirement System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Discount Rate (7.75%)	1% Increase (8.75%)
Town's proportionate share of the Net Pension Liability	\$ 10,762,388	\$ 8,912,285	\$ 7,348,687

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Middlesex County Retirement System financial report. The System issues a stand-alone financial report is available that can be obtained through the System's website at <https://middlesexretirement.org/wp-content/uploads/2017/07/FINAL-MCRS-Audit-Report-of-Financial-Statements-12-31-2016.pdf>

B. Other Postemployment Benefits (OPEB) Disclosures – GASB 43 and 45

The Governmental Accounting Standards Board (GASB) issued Statement #74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* which became effective for the current reporting period. GASB Statement #74 relates to reporting requirements of the Town's OPEB Trust fund. The net other post-employment benefits **liability** reported in the GASB Statement #74 disclosures differs from the net other post-employment benefits **obligation** amount reported in the Town's statement of net position. The reporting requirements related to the Town's statement of net position are currently guided by GASB Statement #45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Under GASB Statement #45, the reporting of the Town's net other post-employment benefits liability is being "phased in" over a thirty year period. Concurrent with GASB Statement #74, the GASB issued Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement #75 (becomes effective for the June 30, 2018 reporting period) which eliminates the thirty year phase in of the other post-employment benefits liability. Therefore, the net other post employment liability reported in the Town's June 30, 2018 statement of net position will agree with the GASB Statement #74 disclosures related to the Town's OPEB Trust.

Plan Description.

Plan Administration: In addition to providing pension benefits, the Town provides for a portion of health insurance benefits for eligible plan members. Group 1 employees hired before April 2, 2012, are eligible for OPEB benefits at age 55 with 10 years creditable service or any age with 20 years of creditable service. Group 1 employees hired after April 1, 2012, are eligible at age 60 with 10 years of creditable service. Group 4 employees hired before April 2, 2012, are eligible for OPEB benefits at age 55 with 10 years creditable service or any age with 20 years of creditable service. Group 4 employees hired after April 1, 2012, are eligible at age 55 with 10 years of creditable service.

Plan Membership: At June 30, 2017, the plans membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	37
Inactive plan members entitled to but not yet receiving benefit payments	0
Active Plan Members	<u>41</u>
Total	78

Benefits Provided: The Town provides retired employees and their spouses and dependents with payments for a portion of their health care and life insurance benefits. Benefits are provided through a third party insurer.

Contributions. The Town pays 50% of the total premiums for health insurance and 50% of the premiums for a \$2,000 life insurance policy for retirees and their spouses. Benefits paid by the Town are on a pay-as-you-go basis. The contribution requirements of plan members and the Town may be amended from time to time.

Investments

Investment Policy: The plan's policy in regard to the allocation of invested assets is approved and may be amended by the Treasurer with the approval of the Commissioners. The policy pursues an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the adopted asset allocation policy as of June 30, 2017:

	<u>Target Allocation</u>
Domestic Equity	30.00%
International Equity	15.00%
Domestic Bond	25.00%
International Bond	10.00%
Alternatives	20.00%
	<u>100.00%</u>

Concentrations

The OPEB plan did not hold investments in any one organization that represent 5 percent or more of the OPEB plan's fiduciary net position.

Rate of Return

For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 6.32%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB Liability

The components of the Net OPEB liability of the Town at June 30, 2017 were as follows:

Total OPEB Liability	\$ 4,956,153
Plan Fiduciary Net Position	(32,377)
Net OPEB Liability	<u>\$4,923,776</u>

Plan fiduciary net position as a percentage of the total OPEB liability	0.65%
---	-------

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.60%
Investment Rate of Return	3.58%
Health Cost Trend Rates	8.0% decreasing by 0.5% per year to an ultimate rate of 5% in year seven
Mortality Rates were based on the tables noted below:	
Healthy:	
Pre-Retirement	RP-2000 Employees Mortality Table, base year 2009, projected with fully generational mortality using Scale BB2D.
Post-Retirement	RP-2000 Healthy Annuitant Mortality Table, base year 2014, projected with fully generational mortality using Scale BB2D.

Changes in Assumption:

The actuarial cost method was changed from projected unit credit method to the entry age normal method.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2017, are summarized in the table below:

	Long Term Expected <u>Rate of Return</u>
Domestic Equity	5.05%
International Equity	5.80%
Domestic Bond	2.47%
International Bond	2.40%
Alternatives	4.80%

Discount rate: The discount rate used to measure the total OPEB liability was 3.58% (4.0% in the prior valuation). The projection of cash flows used to determine the discount rate assumed that Town contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be insufficient to make all projected future benefit payments of current plan members. Therefore, the municipal bond rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net OPEB liability to changes in the discount rate: The following presents the net OPEB liability of the Town, as well as what the Town's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.58%) or 1-percentage-point higher (4.58%) than the current discount rate:

	1% Decrease <u>2.58%</u>	Discount Rate <u>3.58%</u>	1% Increase <u>4.58%</u>
Net OPEB Liability (asset)	\$5,778,972	\$4,923,776	\$4,249,357

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates: The following presents the net OPEB liability of the Town, as well as what the Town's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage-point lower (7% decreasing to 4%) or 1-percentage-point higher (9% decreasing to 6%) than the current healthcare cost trend rates:

	1% Decrease (7% decreasing to 4%)	Healthcare Cost Trend (8% decreasing to 5%)	1% Increase (9% decreasing to 6%)
Net OPEB Liability (asset)	\$4,165,679	\$4,923,776	\$5,903,826

Employer's Reporting (GASB Statement #45)

- a. **Annual OPEB Cost and OPEB Obligation.** The annual Other Postemployment Benefit (OPEB) cost is calculated based on the Annual Required Contribution (ARC) of the Town, an amount that has been actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the Town's annual OPEB cost for the fiscal year ended June 30, 2017, the amount actually contributed to the plan, and the Town's Net OPEB Obligation (NOO):

Annual Required Contribution (ARC)	\$421,689
Interest on Net OPEB Obligation	73,859
Adjustment to Annual Required Contribution	(61,549)
Annual OPEB Cost (Expense)	<u>433,999</u>
Contributions Made	<u>(210,300)</u>
Increase in Net OPEB Obligation	223,699
Net OPEB Obligation (NOO)- Beginning of Year	<u>1,846,475</u>
Net OPEB Obligation (NOO)- End of Year	<u><u>\$2,070,174</u></u>

The Town's annual required contribution, the percentage of the annual required contributions contributed to the plan and the net OPEB obligation for recent years are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>	<u>Net OPEB Obligation</u>
2015	\$294,034	64%	\$1,766,185
2016	\$315,490	71%	\$1,846,475
2017	\$421,689	50%	\$2,070,174

- b. **Funded Status and Funding Progress.** As of July 1, 2016, the most recent actuarial valuation date, no funding to the plan has been made. The Actuarial Accrued Liability (AAL) for benefits was \$4,412,184 and the actuarial value of assets was \$20,704, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$4,391,480. The decrease in the liability from the 2010 valuation related to the regionalization of the School System. The actuarial value of the assets as a percentage of the Actuarial Accrued Liability (funded ratio) was 0.47%. The covered payroll as of the valuation date was \$2,443,511 and the UAAL as a percentage of the covered payroll was 179.7%. **Subsequent to the most recent valuation date, the Town made contributions to and had earnings in the OPEB trust. The balance in the OPEB trust as of June 30, 2017, was \$32,377. The plan assets are recorded and reported in the Town's fiduciary fund financial statements.**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

- c. **Actuarial Methods and Assumptions.** Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members). The projections consider the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2016, actuarial valuation, the entry age normal method was used (projected unit credit in the prior valuation) The actuarial assumptions included a 3.58% investment rate of return and (4.0% in prior valuation) an annual healthcare cost trend rate of 8% initially, graded down to an ultimate rate of 5% (the prior study began with 7% and graded down to 5%). The actuarial value of assets is determined using market value.

C. Solid Waste Landfill Closure and Postclosure Care Costs

State and federal regulations require that solid waste landfill closures meet certain standards. Generally accepted accounting principles require recognition of a liability for closure and postclosure costs based on the landfill capacity used to date. The landfill capacity used to date is 100%. Closure date of the landfill was December 31, 1998. The Town estimated the future landfill postclosure care cost and it is disclosed in the government wide financial statements. The potential

exists for revisions to the estimate due to inflation, new technology or changes in applicable laws and regulations.

D. Subsequent Year Authorizations

On May 9, 2017 and November 13, 2017, the Town adopted a fiscal 2018 operating and capital budget. Fiscal 2018 budgetary amounts will be financed by the following sources:

2018 Property Taxes, State Aid and Non-Property Tax Revenue	\$ 13,387,940
Enterprise Fund Estimated Revenues	762,917
Enterprise Fund Retained Earnings	270,000
Enterprise Fund Betterment Reserves	874,417
Other Available Funds	23,162
General Fund Restricted Fund Balance	32,356
General Fund Committed Fund Balance	195,820
General Fund Assigned Fund Balance	273,614
General Fund Unassigned Fund Balance	364,827
Total	<u>\$ 16,185,053</u>

E. Significant Commitments and Contingencies
Encumbrances

Encumbrances for open purchase are reported as Assigned Fund Balance unless the resources have already been restricted, committed or assigned for another purpose. The Town had \$5,536 in open purchase orders at June 30, 2017. That amount was reported as assigned fund balance in the general fund.

Contingencies

The Town has threatened and pending litigation. Management does not believe that the results of the litigation will materially affect the Town's financial position.

F. Implementation of New GASB Pronouncements

During fiscal year 2017, the following GASB pronouncements were implemented:

- The GASB issued Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, which is required to be implemented in fiscal year 2017. The implementation of this pronouncement did not impact the financial statements.
- The GASB issued Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, which is required to be implemented in fiscal year 2017. The implementation of this pronouncement required new disclosures and required supplementary information schedules related to the Town's Other Post-Employment Benefits Trust Fund.

- The GASB issued Statement No. 77, *Tax Abatement Disclosures*, which is required to be implemented in fiscal year 2017. The implementation of this pronouncement did not impact the financial statements.
- The GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* which is required to be implemented in fiscal year 2017. The implementation of this pronouncement did not impact the financial statements.
- The GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14* which is required to be implemented in fiscal year 2017. The implementation of this pronouncement did not impact the financial statements.

The following GASB pronouncements will be implemented in future fiscal years:

- The GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is required to be implemented in fiscal years beginning after June 15, 2017.
- The GASB issued Statement No. 81 *Irrevocable Split-Interest Agreements*, which is required to be implemented in fiscal years beginning after December 15, 2016.
- The GASB issued Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73* which is required to be implemented in fiscal year 2018.
- The GASB issued Statement No. 83, *Certain Asset Retirement Obligations* which is required to be implemented in fiscal years beginning after June 15, 2018.
- The GASB issued Statement No. 84, *Fiduciary Activities* which is required to be implemented in fiscal years beginning after December 15, 2018.
- The GASB issued Statement No. 85, *Omnibus 2017* which is required to be implemented in fiscal years beginning after June 15, 2017.
- The GASB issued Statement No. 86, *Certain Debt Extinguishment Issues* which is required to be implemented in fiscal years beginning after June 15, 2017.
- The GASB issued Statement No. 87, *Leases* which is required to be implemented in fiscal years beginning after December 15, 2019.

Management is currently assessing the impact that the implementation of these pronouncements will have on the basic financial statements. Management's current assessment is that GASB Statement #75 will have a significant impact on the Town's basic financial statements by recognizing the entire actuarially accrued liability and expense, related to the Town's Other Post-Employment Benefits.

REQUIRED SUPPLEMENTARY INFORMATION

Town of Shirley, Massachusetts
Required Supplementary Information
General Fund

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
<u>Revenues</u>				
Property Taxes	\$ 10,294,619	\$ 10,294,619	\$ 10,194,801	\$ (99,818)
Tax Liens	-	-	56,623	56,623
Excises	745,549	745,549	938,340	192,791
Penalties and Interest	60,000	60,000	67,647	7,647
Licenses and Permits	112,000	112,000	182,389	70,389
Fees and Other Departmental	130,309	130,309	159,533	29,224
Intergovernmental	1,435,653	1,435,653	1,742,684	307,031
Fines and Forfeits	5,000	5,000	14,366	9,366
Earnings on Investments	5,000	5,000	28,977	23,977
In Lieu of Taxes	17,500	17,500	17,640	140
Miscellaneous	20,000	20,000	31,094	11,094
Total Revenues	<u>12,825,630</u>	<u>12,825,630</u>	<u>13,434,094</u>	<u>608,464</u>
<u>Expenditures</u>				
Current:				
General Government	1,089,876	1,147,997	1,088,827	59,170
Public Safety	1,391,685	1,499,565	1,498,344	1,221
Education	7,868,140	7,868,140	7,868,140	-
Highway and Public Works	563,600	613,600	612,065	1,535
Health and Human Services	172,289	164,325	143,232	21,093
Culture and Recreation	228,190	228,190	229,143	(953)
Intergovernmental	60,594	60,594	61,054	(460)
Employee Benefits	1,569,435	1,587,435	1,575,198	12,237
Debt Service	554,872	504,810	489,797	15,013
Total Expenditures	<u>13,498,681</u>	<u>13,674,656</u>	<u>13,565,800</u>	<u>108,856</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(673,051)</u>	<u>(849,026)</u>	<u>(131,706)</u>	<u>717,320</u>
<u>Other Financing Sources (Uses):</u>				
Transfers In	174,165	174,165	173,966	(199)
Transfers Out	-	(339,287)	(339,287)	-
Other Available Funds	92,356	92,356	92,356	-
Budgetary Fund Balance	406,530	921,792	921,792	-
Total Other Financing Sources (Uses)	<u>673,051</u>	<u>849,026</u>	<u>848,827</u>	<u>(199)</u>
Excess (Deficiency) of Revenues and Other Financing Sources (Uses) Over Expenditures/ Use of Prior Year Budgetary Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 717,121</u>	<u>\$ 717,121</u>

See Notes to the Required Supplementary Information

Required Supplementary Information
Schedule of the Town of Shirley, Massachusetts' Proportionate Share of the Net Pension Liability
Middlesex County Retirement System
Last Ten Fiscal Years**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Town's proportionate share of net pension liability (asset) (%)	0.629009%	0.708055%	0.711686%	<i>This schedule is intended to show information for 10 years. Additional years' information will be displayed as it becomes available.</i>						
Town's proportionate share of net pension liability (asset) (\$)	8,912,285	9,134,041	8,459,600							
Town's covered-employee payroll	2,005,444	2,017,558	1,939,960							
Town's proportionate share of net pension liability (asset) as a percentage of its covered-employee payroll	444.40%	452.73%	436.07%							
Plan fiduciary net position as a percentage of the pension liability	45.49%	46.13%	47.65%							

** The amounts presented for each fiscal year were determined as of December 31.

See Notes to the Required Supplementary Information

Required Supplementary Information
Schedule of the Town of Shirley, Massachusetts' Contributions
Middlesex County Retirement System
Last Ten Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually required contribution	\$ 754,746	\$ 710,468	\$ 649,803	<i>This schedule is intended to show information for 10 years. Additional years' information will be displayed as it becomes available.</i>						
Contributions in relation to the contractually required contribution	<u>(754,746)</u>	<u>(710,468)</u>	<u>(649,803)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	2,005,444	2,017,558	1,939,960							
Contributions as a percentage of covered-employee payroll	37.63%	35.21%	33.50%							

See Notes to the Required Supplementary Information

Town of Shirley, Massachusetts
Required Supplementary Information - GASB 45
Schedule of Funding Progress & Employer's Contributions
Fiscal Year Ended June 30, 2017

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) <u>(b)</u>	Unfunded AAL (UAAL) <u>(b) - (a)</u>	Funded Ratio <u>(a) / (b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percentage of Covered Payroll <u>[(b) - (a) / (c)]</u>
July 1, 2016	\$20,704	\$4,412,184	\$4,391,480	0.47%	\$2,443,541	179.7%
July 1, 2013	\$0	\$4,182,196	\$4,182,196	0%	\$2,019,159	207.1%
July 1, 2010	\$0	\$5,736,603	\$5,736,603	0%	\$1,802,583	318.2%

This schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Schedule of Employer's Contributions

Fiscal Year <u>Ended June 30</u>	Annual Required Contribution (ARC) <u>Contribution (ARC)</u>	Percentage of ARC <u>Contributed</u>	Net OPEB <u>Obligation</u>
2015	\$294,034	64%	\$1,766,185
2016	\$315,490	71%	\$1,846,475
2017	\$421,689	50%	\$2,070,174

Town of Shirley, Massachusetts
Required Supplementary Information - GASB 45
Valuation Details
Fiscal Year Ended June 30, 2017

Valuation Date	July 1, 2016
Actuarial Cost Method	Entry Age Normal
Amortization Method	Increasing at 4% over 30 years on an open amortization period
Asset Valuation Method	Market value

Actuarial Assumptions:

Investment Rate of Return	4%, net of OPEB plan investment expense, including inflation
Healthcare Cost Trend Rate	8% initial, decreasing 0.5% per year to an ultimate rate of 5%
Plan Membership:	
Current retirees, beneficiaries, and dependents	37
Current active members	<u>41</u>
Total	<u>78</u>

See Notes to the Required Supplementary Information

Town of Shirley, Massachusetts
Required Supplementary Information
Schedule of Changes in the Net OPEB Liability and Related Ratios (GASB 74)
June 30, 2017
Last 10 Fiscal Year

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Total OPEB liability										
	<i>This schedule is intended to show information for 10 years. Additional years' information will be displayed as it becomes available</i>									
Service cost	\$ 348,564									
Interest	156,830									
Changes of benefit terms	-									
Difference between expected and actual experience	-									
Changes in assumptions	(603,293)									
Benefit payments	(200,300)									
Net change in total OPEB liability	(298,199)									
Total OPEB liability - beginning	5,254,352									
Total OPEB liability - ending (a)	\$ 4,956,153									
Plan Fiduciary net position										
Contributions - employer	\$ 210,300									
Net investment income	1,673									
Benefit payments	(200,300)									
Administrative expense	-									
Net change in plan fiduciary net position	11,673									
Plan fiduciary net position - beginning	20,704									
Plan fiduciary net position - ending (b)	\$ 32,377									
Town's net OPEB liability - ending (a) - (b)	\$ 4,923,776									
Plan fiduciary net position as a percentage of the total OPEB liability	0.65%									
Covered-employee payroll	\$ 2,443,541									
Town's net OPEB liability as a percentage of covered - employee payroll	201.50%									

See Notes to the Required Supplementary Information

Town of Shirley, Massachusetts
Required Supplementary Information
Schedule of Contributions (GASB 74)
June 30, 2017
Last 10 Fiscal Year

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarial determined contribution	\$ 421,689	<i>This schedule is intended to show information for 10 years. Additional years' information will be displayed as it becomes available</i>								
Contributions in relating to the actuarially determined contribution	210,300									
Contribution deficiency (excess)	<u>\$ 211,389</u>									
Covered-employee payroll	\$ 2,443,541									
Contributions as a percentage of covered-employee payroll	8.61%									

Notes to Schedule

Valuation date:	6/30/2017
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry Age Normal Cost
Amortization method	Increasing at 4% over 30 years on an open amortization period
Amortization period	30 years closed
Asset valuation method	Market Value
Inflation	2.60%
Healthcare cost trend rates	8.0% decreasing by 0.5% per year to an ultimate rate of 5% in year seven
Investment rate of return	4.0%, net of OPEB plan investment expense, including inflation
Mortality	
Healthy:	
Pre-Retirement	RP-2000 Employees Mortality Table, base year 2009, projected with fully generational mortality using Scale BB2D.
Post-Retirement	RP-2000 Healthy Annuitant Mortality Table, base year 2014, projected with fully generational mortality using Scale BB2D.

See Notes to the Required Supplementary Information

Town of Shirley, Massachusetts
Required Supplementary Information
Schedule of Investment Returns
June 30, 2017
Last 10 Fiscal Year

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
--	------	------	------	------	------	------	------	------	------	------

Annual money-weighted rate of return,
net of investment expense

6.32% *This schedule is intended to show information for 10 years. Additional years' information will be displayed as it becomes available*

See Notes to the Required Supplementary Information

Town of Shirley, Massachusetts
Notes to the Required Supplementary Information
June 30, 2017

(I) Budgetary Information

Budget requests are prepared by the various Town departments and submitted to the Selectmen and Finance Committee for review during January and February of each year. The Selectmen and Finance Committee have until April/May, which is when the annual Town meeting is held, to make any changes to the departments' requests. After approval of the budget at the annual Town meeting, the tax recapitulation (recap) sheet is prepared. During this process the property tax rate is determined and the recap sheet is sent to the Department of Revenue for approval.

Encumbrance accounting is utilized when purchase orders, contracts or other commitments for purchases are recorded in order to reserve that portion of the applicable appropriations.

(II) Pension Plans

i. Plan Description

The Town provides pension benefits to eligible employees by contributing to the Middlesex County Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Middlesex County Retirement System. The System is administered by a five member board on behalf of all eligible current employees and retirees. The system provides retirement benefits, cost of living adjustments, disability benefits and death benefits.

The Town is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws (MGL). The authority to establish and amend benefit provisions requires a statutory change to Chapter 32. The Middlesex County Retirement System issues a stand-alone financial report that is available to the public at <https://middlesexretirement.org/wp-content/uploads/2017/07/FINAL-MCRS-Audit-Report-of-Financial-Statements-12-31-2016.pdf> or by writing to the Middlesex County Retirement System, 25 Linnell Circle, P.O. Box 160, Billerica, Massachusetts 01865.

ii. Funding Plan

Active members of the Middlesex County Retirement System contribute either 5%, 7%, 8% or 9% of their gross regular compensation depending on the date upon which their membership began. An additional 2% is required from employees for earnings in excess of \$30,000. The Town is required to pay an actuarially determined rate. The contribution requirements of plan members are determined by M.G.L. Chapter 32. The Town's contribution requirement is established and may be amended by the Middlesex County Retirement System with the approval of the Public Employee Retirement Administration Commission.

iii. Change in Assumptions

The following changes were effective January 1, 2016:

- The pre-retirement mortality assumption was changed from the RP-2000 Employee Mortality Table projected 22 years with Scale AA to the RP-2000 Employee Mortality Table projected generationally from 2009 with Scale BB2D.

- The mortality assumption for non-disabled retirees was changed from the RP-2000 Healthy Annuitant Mortality Table projected 17 years with Scale AA to the RP-2000 Healthy Annuitant Mortality Table projected generationally from 2009 with Scale BB2D.
- The mortality assumption for disabled participants was changed from the RP-2000 Healthy Annuitant Mortality Table set forward three years projected 17 years with Scale AA to the RP-2000 Healthy Annuitant Mortality Table projected generationally from 2015 with Scale BB2D.
- The investment return assumption was lowered from 7.875% to 7.75%.
- The administrative expense assumption was increased from \$3,400,000 for calendar 2014, increasing 4% per year, to \$3,500,000 for calendar 2016, and increasing 3.5%.

iv. Schedule of Town's Proportionate Share of the Net Pension Liability - Middlesex County Retirement System

The schedule details the Town's percentage of the collective net pension liability, the proportionate amount of the collective net pension liability, the Town's covered-employee payroll, the Town's proportionate share of the collective net pension liability as a percentage of the Town's covered-employee payroll and the fiduciary net position of the plan as a percentage of the total pension liability. As more information becomes available, this will be a ten year schedule.

v. Schedule of the Town's Contributions

The schedule details the Town's contractually required contributions, the contributions made by the Town, the deficiency/(excess) of contributions made by the Town, the Town's covered-employee payroll and the Town's contributions as a percentage of covered-employee payroll. As more information becomes available, this will be a ten year schedule.

(III) Other Postemployment Benefits (OPEB) Disclosures – GASB 43 and 45

The Governmental Accounting Standards Board (GASB) issued Statement No. 45 (GASB 45), "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions". This statement requires the Town to account for and report the value of its future OPEB obligations currently rather than on a pay as you go basis.

i. Plan Description

In addition to providing pension benefits, the Town provides for a portion of health insurance benefits for eligible plan members. Group 1 employees hired before April 2, 2012, are eligible for OPEB benefits at age 55 with 10 years creditable service or any age with 20 years of creditable service. Group 1 employees hired after April 1, 2012, are eligible at age 60 with 10 years of creditable service. Group 4 employees hired before April 2, 2012, are eligible for OPEB benefits at age 55 with 10 years creditable service or any age with 20 years of creditable service. Group 4 employees hired after April 1, 2012, are eligible at age 55 with 10 years of creditable service.

ii. Funding Policy

The Town pays 50% of the total premiums for health insurance and 50% of the premiums for a \$2,000 life insurance policy for retirees and their spouses. Benefits paid by the Town are on a pay-as-you-go basis. The contribution requirements of plan members and the Town may be amended from time to time.

iii. Other OPEB Information

The Schedule of Funding Progress and Employer's Contributions presents multi-year trend information which compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets and information about the employer's contribution relative to the annual required contribution.

The Schedule of Valuation Details presents factors that significantly affect the identification of trends in the amounts reported.

The Schedule of Changes in the Net OPEB Liability and Related Ratios (GASB74) provides information about the changes in the OPEB liability and the changes in the fiduciary net position of the plan. The schedule, also, provides the plan fiduciary net position as a percentage of the total OPEB liability, the covered employee payroll and the Town's net OPEB liability as a percentage of covered employee payroll.

The Schedule of Contributions (GASB 74) details the Town's actuarially required contributions, the contributions made by the Town, the deficiency/(excess) of contributions made by the Town, the Town's covered-employee payroll and the Town's contributions as a percentage of covered-employee payroll.

The Schedule of Investment Returns (GASB 74) details the Town's annual money weighted rate of return, net of investment expense.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Selectmen
Town of Shirley
7 Keady Way
Shirley, MA 01464

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Town of Shirley, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town of Shirley's basic financial statements, and have issued our report thereon dated June 29, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Shirley's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Shirley's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Shirley's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings that we consider to be a material weakness (Finding 2017-1).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Shirley's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
Georgetown, Massachusetts
June 29, 2018

Town of Shirley, Massachusetts
Schedule of Finding
June 30, 2017

Schedule of Findings

The Town did not have formal procedures in place to reconcile “all” of the Town’s accounts receivable from the Collector’s detailed outstanding lists to the Accountant’s general ledger balances. As a result, a considerable number of adjusting journal entries were required (supplemental property tax, sewer liens added to tax, correct revenue postings...) in order to more accurately reflect the accounts receivable balances as of June 30, 2017.

After the identified adjustments were made, several of the receivable accounts still had small variances that aggregated to an immaterial amount. However, the tax lien list was \$14,483 more than the amount recorded in the general ledger.

Monthly reconciling procedures are a fundamental element in a strong system of internal control. Performing this function in a timely manner each month can provide assurance that the financial data utilized to manage the Town is accurate.

We recommend that the Town Accountant and the Treasurer Collector work together each month to reconcile all of the Town’s account receivable.